Understanding National Health Reform:

Focus on Individuals and Families

Prepared by
North Carolina Institute of Medicine

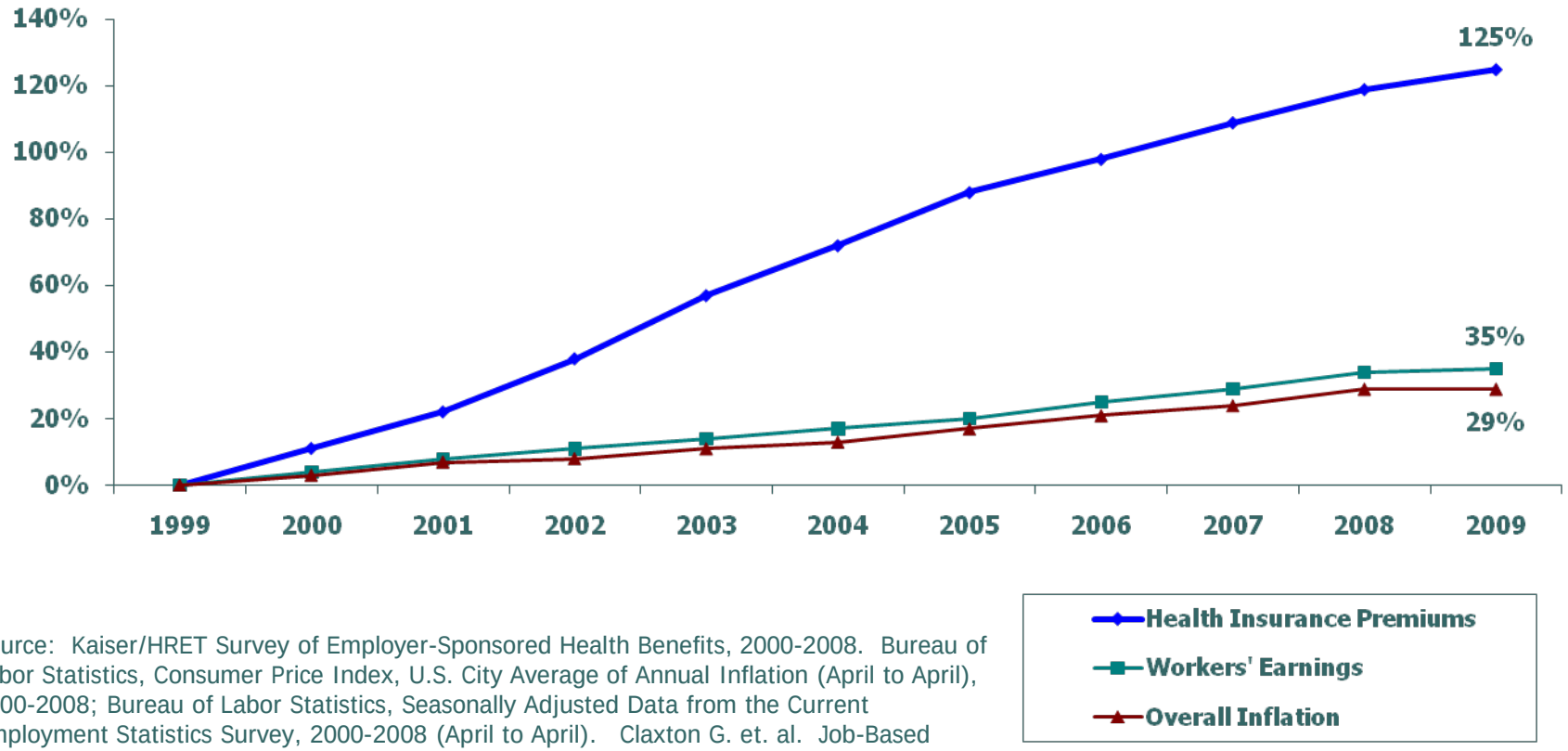
NCIOM North Carolina Institute of Medicine
shaping policy for a healthier state

Background

- Estimates of the uninsured (2009):
  - The US Census estimates that there were ~1.7 million non-elderly uninsured North Carolinians in 2009 (20.4%).
  - In 2009, the NCIOM estimates that there were ~1.75 million non-elderly uninsured North Carolinians (21%) after the downturn in the economy.
- Average annual per capita personal health care spending is rising rapidly nationally and in NC (1998-2004).
  - In North Carolina: 7.2% average annual increase.

Source: NCIOM. Health Care Costs and Insurance Coverage in Five Southern States. Data Snapshot. 2009-3. North Carolina's Increase in the Uninsured: 2007-2009; US Census, Historical Health Insurance Tables. HI6.

US Health Insurance Premiums Increasing More Rapidly Than Inflation or Earnings (1999-2009)



Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2000-2008. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 2000-2008; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 2000-2008 (April to April). Claxton G. et. al. Job-Based Health Insurance: Costs Climb at a Moderate Rate. Health Affairs. Sept. 15, 2009.

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Legislation

- The Patient Protection and Affordable Care Act (HR 3590) was signed into law on March 23, 2010.
- The Health Care and Education Affordability Act of 2010 (HR 4872) was signed into law on March 30, 2010.
- More of the details of the law will be provided in regulations over the next few years.

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Basics of National Health Reform

- Overview of health reform legislation
- Changes in public coverage
- Private coverage
- Long-term care
- Other provisions
- Cost containment and financing
- Congressional Budget Office (CBO) estimates

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Basics of National Health Reform--Overview

- **Overview of health reform legislation**
- Changes in public coverage
- Private coverage
- Long-term care
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- CBO estimates

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Overview of Health Reform

- By January 1, 2014, the bill requires most people to have health insurance and large employers to provide affordable health insurance or pay a penalty.
  - Most low-income people will be eligible for Medicaid.
  - Most low- and moderate-income individuals and families will be eligible for subsidies to help pay for private insurance, unless they have employer or governmental insurance.
  - Employers with 50 or more employees will be required to offer insurance coverage or pay a penalty.
  - Small employers will be exempt from mandates, but some will be eligible for tax credits if they offer insurance to their workers.

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Overview of Health Reform

- The legislation expands health insurance coverage by:
  - Covering more people and making it more affordable to many.
  - Covering preventive services and essential health benefits.
- The legislation provides new funding for:
  - Health promotion and wellness initiatives.
  - Expansion of the safety net.
  - Health professions education and workforce.
- The legislation includes an emphasis on improving quality and efforts to reduce unnecessary health care costs.

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Basics of National Health Reform--Overview

- Overview of health reform legislation
- **Changes in public coverage**
  - **Medicaid, NC Health Choice and Medicare**
- Private coverage
- Long-term care
- Other provisions
- Cost containment and financing
- CBO estimates

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Medicaid

- What is Medicaid?
  - Medicaid is a government-funded health insurance program that covers some individuals and families with low incomes.
  - States have different income eligibility rules depending on whether the person is a child, pregnant woman, the parent of a dependent child, elderly (65 or older), or have a disability.
  - Childless adults do not currently qualify for Medicaid in most states (including North Carolina).

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Medicaid (cont'd)

- Will I qualify for Medicaid under health reform?
  - If you qualify for Medicaid now, you should be able to qualify in 2014 (assuming your income stays about the same).
  - Beginning in 2014, the bill expands Medicaid to cover low-income people under age 65 with incomes up to 138% of the federal poverty level (FPL), based on modified gross income.
  - Undocumented immigrants will *not* be eligible for regular Medicaid coverage, regardless of how poor.

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NC Health Choice

- What is NC Health Choice?
  - NC Health Choice is North Carolina's child health insurance program. It is funded by the state and federal governments.
- Who is eligible for NC Health Choice?
  - Children under age 19 whose family income is too high to qualify for Medicaid but less than 200% FPL.
  - In North Carolina, children birth through age 5 qualify for Medicaid with incomes up to 200% FPL. Children ages 6 through 18 qualify for Medicaid with incomes up to 100% FPL, and for NC Health Choice with incomes between 100-200% FPL.

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NC Health Choice (cont'd)

- Will my children still be eligible for NC Health Choice after health reform?
  - If your children qualify for NC Health Choice now, they should be able to qualify in 2014 (assuming your income stays about the same).
  - However, the federal government has only authorized and provided funding to support the children's health insurance program through 2019. After that time, children will remain on Medicaid if still eligible or buy insurance through their parent's policy.

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Medicaid Income Eligibility Limits/Year (2011)

Note: This example is based on the 2011 Federal Poverty Levels (FPL). These income limits will be increased by 2014.

Family Size	Children Medicaid or NC Health Choice (200% FPL)	Pregnant Women (185% FPL)	Adults 18-64 (138% FPL)	Older Adults (65+) (100% FPL)
1	$21,780	$20,147	$15,028	$10,890
2	$29,420	$27,214	$20,300	$14,710
3	$37,060	$34,281	$25,571	$18,530
4	$44,700	$41,348	$30,843	$22,350
Each additional person	$7,640	$7,067	$5,272	$3,820

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Medicare

- How will health reform change my Medicare benefits?
  - The legislation protects existing Medicare benefits. On January 1, 2011, Medicare began covering preventive services with no cost-sharing.
  - In 2011, Medicare beneficiaries will get a 50% discount on any brand name drugs purchased in the “donut hole.”
  - The legislation phases out the Part D “donut hole” by 2020 through increasing discounts on brand-name prescription drugs.

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Medicare (cont'd)

- What changes will health reform make to Medicare Advantage plans?
  - Medicare Advantage plans cannot charge more in cost sharing (copayments, deductibles, or coinsurance) for Medicare-covered services than is allowed under traditional Medicare.

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Medicare (cont'd)

- Does health reform cut payments to Medicare Advantage plans?
  - Yes, beginning in 2012, Medicare Advantage plans will have their payments reduced. Historically, Medicare Advantage plans have been overpaid in comparison to what it costs to provide the same services through the traditional Medicare program.

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Basics of National Health Reform--Overview

- Overview of health reform legislation
- Changes in public coverage
- **Private coverage**
  - **Insurance reform**
  - **Essential benefit package**
  - **Health insurance "exchanges"**
  - **Individual mandate and subsidies**
  - **Employer responsibilities**
- Long-term care
- Other provisions
- Cost containment and financing
- CBO estimates

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Insurance Reform

- Will health reform make it easier for me to get health insurance in the private market?
  - Yes, especially if you have a health problem that has made it hard for you to buy health insurance. Beginning in 2014, health insurers cannot charge more, exclude people, or rescind policies because of a person's pre-existing conditions.
  - Health reform includes other changes in the insurance laws. Some of these new consumer protections have already gone into effect. Others will go into effect between now and 2014.

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Insurance Reform (cont'd)

- Some of the more immediate changes began for health insurance plans that were issued after September 23, 2010.*
  - Insurers must offer parents the choice of covering their children up to their 26th birthday through the parent's health insurance coverage.
  - Insurers will no longer be able to deny coverage to children under age 19 with pre-existing conditions.
  - Insurers may not include annual or lifetime limits for essential health benefits (defined later).
  - Insurers must submit premium rate increases to state Commissioners of Insurance for review to determine reasonableness.

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* Some of the protections do not apply in the same way to "grandfathered" plans or to some employer-sponsored plans.

Essential Benefits Package

- What health care services will be covered by private insurance?
  - The Secretary of US Department of Health and Human Services will define the “essential” health benefit package.
  - In general, health plans will be required to offer: hospital services; services by doctors and other health professionals; prescription drugs; rehabilitation and habilitative services; mental health and substance abuse services; and maternity care.
  - Plans must also cover well-baby, well-child care, oral health, and vision and hearing services for children under age 21.
  - Plans are also required to cover all preventive services and immunizations (recommended by certain expert panels) with no cost sharing.

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Grandfathered Health Plans

- What if I am already enrolled in a health plan that I like? Will I need to change health plans?
  - No. As a general rule, you can continue to stay in your existing health plan. If you were enrolled in your plan on or before March 23, 2010, and stay in that plan, you are in a "grandfathered" health plan.
- What does it mean to be in a "grandfathered" health plan?
  - Grandfathered health plans do not need to follow all the same rules as new health insurance offered after March 23, 2010. Thus, people enrolled in a grandfathered health plan may not get all the same covered services.

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Health Benefit Exchange (HBE)

- What are health benefit exchanges?
  - States will create marketplaces, or “exchanges,” in which individuals and small businesses may purchase health insurance coverage.
  - Exchanges will provide standardized information on quality and costs to help consumers choose between health insurance plans.
  - Exchanges will determine an individual’s or family’s eligibility for the health insurance premium tax credit (see next slides).
  - Exchanges will be limited to citizens and lawful residents who do not have access to employer-sponsored or governmental-supported health insurance and to small businesses with 100 or fewer employees.

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What Plans Will be Available in the HBE?

- What kinds of health insurance plans will be available to purchase in the Health Benefit Exchanges?
  - All of the plans offered through the Health Benefit Exchanges (HBEs) will include the essential health benefits.
  - Insurers will offer bronze, silver, gold, and platinum plans through the HBE with varying levels of coverage. For example "silver" plans will pay, on average, 70% of the covered health care costs. You will be responsible for paying the remaining 30% of covered health care costs out of pocket.
  - In general, the higher the level of plan, the more a person will pay in premiums but the less they will pay in out-of-pocket costs.

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Individual Mandate

- Am I required to buy health insurance under health reform?
  - No. However beginning in 2014, you may be required to a pay penalty if you do not have qualified health insurance (if you are not exempt).
- Is anyone exempt from the individual mandate?
  - Yes. Some examples include those who aren't required to pay taxes, those for whom the lowest cost plan would exceed 8% of their income, and those with certain religious exemptions.

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Penalties for Individuals or Families

- What are the penalties for not having insurance coverage?
  - Beginning in 2014, an individual must pay the greater of $95/person (for up to 3 people in the family) or 1% taxable income. By 2016, the penalty increases to $695/person or 2.5% taxable income.
  - No one will be required to pay more than they would have paid if they bought the lowest cost health plan in their community.

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Subsidies to Individuals and Families

- What if I make too much to be eligible for Medicaid but can't afford to buy health insurance?
  - Beginning in 2014, you may be eligible for a governmental subsidy to help you pay the premium costs and some of the out-of-pocket costs of a "silver" plan in the Health Benefit Exchange.
  - Subsidies are available to individuals and families with incomes between 138% and 400% of the federal poverty level.
  - Subsidies will be available on a sliding scale basis so that lower-income individuals and families will pay less of their annual income on premiums and higher-income individuals and families will pay more.

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Help Buying Private Coverage

- Can I qualify for a subsidy to purchase private coverage if I qualify for Medicaid or other governmental insurance?
  - No. Individuals with health insurance coverage through TRICARE, the Department of Veterans Affairs (VA), Medicaid, NC Health Choice, or Medicare are generally not eligible for subsidies.
- Can I qualify for a subsidy if I have employer-sponsored insurance?
  - Generally no, unless the employer sponsored insurance is unaffordable. The legislation considers employer-sponsored health insurance to be unaffordable if *your* share of the premiums exceeds 9.5% of your annual family income.

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Sliding Scale Subsidies

Individual or family income	Maximum premiums (Percent of family income)	Out-of-pocket cost sharing:* Gov't. subsidies (Individual responsibility)	Out-of-pocket cost sharing limits**
<138% FPL	2% of income	94% (6%)	$1,983 (ind)/ $3,967 (fam) (1/3rd HSA limits)
138-150% FPL	3-4%	94% (6%)	$1,983 / $3,967
150-200% FPL	4-6.3%	87% (13%)	$1,983/ $3,967
200-250% FPL	6.3-8.05%	73% (27%)	$2,975/ $5,950 (1/2 HSA limit)
250-300% FPL	8.05-9.5%	70% (30%)	$2,975/ $5,950
300-400% FPL	9.5%	70% (30%)	$3,967/ $7,934 (2/3rds HSA limit)

*Out-of-pocket cost sharing includes deductibles, coinsurance, copays.
**Out of pocket limits do not include premium costs. Annual cost sharing limited to: $5,950 per individual and $11,900 family in 2011 (HSA limits) (Sec. 1302(c), 1401, 1402, as amended by Sec. 1001 of Reconciliation)

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Subsidies to Individuals and Families: Example

- How do premium subsidies work?
  - Assume the Smith family has four people and a family income that equals $33,525/year (150% FPL in 2011).
  - They want to purchase a family policy with a premium cost of $13,000/year (the approximate average amount of family premiums in North Carolina in 2009).
  - Of the $13,000 premium cost, $10,400 would be spent, on average, for medical expenses. For this example, we assume:
    1. 80% of the premium costs are used to cover medical expenses and the remaining 20% are for administrative expenses and profits.
    2. This insurance policy met the requirements for a silver level plan, which means that the policy covers, on average, 70% of a family's health care costs covered by the plan.

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Subsidies to Individuals and Families (cont'd)

- The total average health care costs for this family plan would be approximately $14,857/year:
  - $10,400 (70%) would be covered by the premium.
  - $4,457 (30%) would be passed along to the family through cost sharing expenses (deductible, copayments, and coinsurance).
- Because of the sliding scale premium subsidy, the Smith family is required to pay $1,341/year ($111.75/month) or 4% of its annual household income in premiums (rather than the full $13,000/year).
- Assuming the Smith family spends the average amount on health care that year ($14,857), they would pay an additional $891/year in out-of-pocket costs (6% of the $14,857).

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Subsidies to Individuals and Families (cont'd)

- If, however, the Smith family incurs more than an average amount of health care costs, their total out-of-pocket costs for covered benefits (excluding the premium) would be capped at $3,967/year for the family.

- Once the family reaches this out-of-pocket limit, the plan would begin to pay 100% of all covered health care costs.

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Employer Responsibilities

- How will health reform affect employers?
  - The answer depends on the size of a firm.
  - Employers with 50 or more full-time employees will be required to offer affordable insurance to their employees and their dependents or pay a penalty.
  - Employers with fewer than 50 employees and who do not offer insurance are exempt from penalties.
  - Employers with 25 or fewer employees and average annual wages of less than $50,000 can receive a tax credit (which began in 2010) to help purchase coverage.

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Employer Penalties

- How much is the employer required to pay in penalties, assuming the employer has more than 50 employees?
  - If employer *does not offer* coverage, the employer must pay $2,000 per full-time employee, excluding first 30 employees.
  - If an employer *does offer* coverage, but at least one full-time employee qualifies for and receives a subsidy, then the employer must pay $3,000 for any full-time employee who receives a subsidy (but in no event more than $2,000 per full-time employee, excluding the first 30 employees).
  - Employers are only required to pay a penalty for their full-time employees, not part-time employees or dependents.

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Long-Term Care

- Most private insurance policies do not cover long-term care. What if I, or someone in my family, needs help with activities of daily living (such as eating, bathing, dressing, or moving from one place to another)?
  - The legislation includes a new public long-term care insurance program, called CLASS (Community Living Assistance Services and Supports).
  - Beginning next year (2012), people who are employed will be automatically enrolled in this program and pay a payroll tax unless they specifically opt-out.

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Long-term Care (cont'd)

- What are the eligibility rules for CLASS?
  - To receive services under the CLASS program, you must have contributed into the program for at least 5 years.
  - To receive CLASS benefits, you or your family member must need help with 2 or 3 activities of daily living or need substantial supervision due to cognitive impairments.
- What services will I receive if I am eligible?
  - Plans will provide cash benefits of not less than an average of $50/day to purchase non-medical services and supports.
  - The actual amount of cash assistance will vary, based on the extent of your functional abilities.

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Medicaid Long-term Care Provisions

- What if I am low-income and have not paid into the CLASS program for 5-years?
  - States typically offer home and community-based services to low-income people through their Medicaid programs.
  - States will be given new authority and enhanced federal funding to expand the availability of Medicaid home and community-based services.

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Basics of National Health Reform--Overview

- Overview of health reform legislation
- Changes in public coverage
- Private coverage
- Long-term care
- **Other provisions**
  - **Workforce, Safety Net, Prevention and Wellness, Quality, and New Models of Care**
- Cost containment and financing
- CBO estimates

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Provider Supply

- What if I can't find a provider?
  - The legislation includes new funding to encourage doctors and other health professionals to practice in underserved areas.
  - In addition, the legislation included provisions to create or expand health professional training programs, including those that train primary care doctors, nurse practitioners, physician assistants, nurses, dentists, public health, mental health and other health professionals.
    - In most instances, the legislation authorized but did not provide direct funding to expand the health professional workforce.

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Provider Supply

- I have limited income and resources to pay for health care services. Aside from a hospital emergency room, is there anywhere else I can obtain care if I need it?
  - Yes. Many communities have “safety net” providers that provide services for free or on a reduced cost basis.
  - The legislation expanded funding for community and migrant health centers.

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Other Provisions

- What other provisions does health reform include?
  - The legislation provides more funding to support prevention and health promotion efforts at national, state and local levels.
  - The legislation requires providers and payers to report health data to measure quality of care. Over the next few years, more of the quality information about insurers, hospitals, nursing homes, physicians, and other providers will be made available to the public.
  - The legislation promotes efforts to test new models of care to improve health care delivery, quality, and efficiency.

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Cost Containment & Financing

- How will health reform contain health care spending?
  - The legislation aims to reduce health care costs by
    - Reducing fraud and abuse
    - Simplifying administrative processes
    - Reducing excess payments to providers and insurers.
  - The legislation increases revenues from
    - Fees paid by individuals/employers for failure to have/offer insurance
    - Taxes on insurers, drug companies, tanning salons, high-cost "Cadillac" health insurance plans, and individuals earning more than $200,000/year and married couples earning more than $250,000/year.

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*Cadillac plans are defined as plans that exceed $10,200 for individual coverage and $27,500 for family coverage (effective 2018), with higher thresholds for people in high-risk professions or retirees.

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CBO Estimates of Coverage and Costs

- Will health reform reduce the number of uninsured?
  - The Congressional Budget Office (CBO) estimates that the legislation will cover an additional 32 million people in the United States by 2019. At that time, 92% of all nonelderly residents (94% of nonelderly citizens and lawful residents) will have health insurance coverage.
- How much will health reform cost?
  - The expansion of insurance coverage and new funding included in the legislation will cost $938 billion over 10 years.
  - However, with new revenues and other spending cuts, the legislation is estimated to reduce the federal deficit by $124 billion over 10 years.

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Sources: CBO letters dated March 20, 2010, and May 11, 2010.

Other NCIOM Resources

- NCIOM's Interim Report on the Implementation of the Patient Protection and Affordable Care Act in North Carolina (2011). Available at: http://www.nciom.org/publications/?implementation-of-the-patient-protection-and-affordable-care-act-in-north-carolina
- Other resources on health reform are available at: http://www.nciom.org/task-forces-and-projects/?aca-info#pres.

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Useful Resources

- Patient Protection and Affordable Care Act
  http://www.nciom.org/wp-content/uploads/2010/09/Consolidated-PPACA.pdf
- Kaiser Family Foundation
  http://www.kff.org/healthreform/upload/8061.pdf
- Congressional Budget Office
  http://www.cbo.gov/doc.cfm?index=12119
- Internal Revenue Service (IRS) ACA Tax Provisions Information
  http://www.irs.gov/newsroom/article/0,,id=220809,00.html

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