

Friday 7.30.2010

Prepare for Healthcare Reform

Agenda

Part 1: Tim Ellenwood, Senior Manager, SC&H State & Local Tax

- Inclusion of Employer Cost of Health Coverage on W-2
- Small Business Health Care Tax Credit
- Q&A

Part 2: Henry Smith, Partner, Smith & Downey

- Maintaining Grandfathered Plan Status
- 2010 Health Care Coverage Reform Legislation
- Q&A

Part 3: Jonathan Anders, CEO, WorkforceTactix, Inc.

- Insurance Exchange – Distribution of Health Care
- Lowering Consumption
- Patient-Centered Medical Home
- Q&A

Group Health Coverage & Form W-2

- Effective 1/1/11 employers must calculate & report the "aggregate cost" of all employer-sponsored health coverage on employees' Form W2s
- Included - Medical, Rx, executive physicals, on-site clinics (if they provide more than de minimus care), medical supplemental policies, EAPs, dental & vision (unless they are "stand-alone" plans)
- Excluded - Health flexible spending accounts, health savings accounts and specific disease or hospital/fixed indemnity plans



Group Health Coverage & Form W-2

- Aggregate cost includes both employer and employee portions of the cost of health coverage
- Formula for determining aggregate cost not yet finalized, Rules similar to COBRA valuation rules for “aggregate cost” determination
- Reporting on Form W-2 not yet finalized. Box 12 expected with a designated code (i.e. the “aggregate cost” will not be considered taxable income)



Small Business Health Care Tax Credit

- IRC §45R - tax credit to small employers that provide health coverage
- Effective for tax years beginning 2010
- Available to taxable and tax-exempt, 501(c), employers
- Credit covers 35% of employer's contribution (25% for tax-exempts)
- 2014 - credit of 50% for taxable and 35% for tax-exempts; applicable only to insurance purchased through online exchange; will expire after receiving for two years
- IRS issued Notice 2010-44 providing guidance on the implementation of the small employer tax credit

Small Business Health Care Tax Credit

- Eligibility requirements:
 - Less than 25 full-time equivalent employees (FTEs) for the taxable year;
 - Average annual wages for taxable year must be less than \$50,000 per FTE; and
 - “Qualified arrangement”
 - Employer pays premium for each employee enrolled in coverage an amount equal to uniform percentage (not less than 50%) of premium cost of coverage



Small Business Health Care Tax Credit

- Are you an eligible employer?
 - Determine the number of employees
 - Determine the number of hours of service performed by those employees
 - Calculate the number of the employer's FTEs
 - Determine the average annual wages paid per FTE
 - Determine the premiums paid by the employer that are taken into account for purposes of the credit

3 SIMPLE STEPS

If you are a small employer (business or tax-exempt) that provides health insurance coverage to your employees, determine if you may qualify for the Small Business Health Care Tax Credit by following these three simple steps:

1 Determine the total number of your employees (not counting owners or family members):

Full-time employees: _____
(enter the number of employees who work at least 40 hours per week)

+

Full-time equivalent of part-time employees: _____
(Calculate the number of full-time equivalents by dividing the total annual hours of part-time employees by 2080.)

= _____ total employees

If the total number of employees is fewer than 25 GO TO STEP 2

2 Calculate the average annual wages of employees (not counting owners or family members):

Take the total annual wages paid to employees: _____

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Divide it by the number of employees from STEP 1: _____
(total wages ÷ number of employees)

= _____ average wages

If the result is less than \$50,000, AND

3 You pay at least half of the insurance premiums for your employees at the single (employee-only) coverage rate, then

you may be able to claim the **Small Business Health Care Tax Credit**.
Find out more information at IRS.gov



Small Business Health Care Tax Credit

- Credit phased out for small employers if:
 - Number of FTEs exceeds 10; or
 - Average annual wages exceed \$25,000
 - For employers that exceed both, the credit phase-out is the sum of the two reductions
- Taxable employers
 - Claim credit on annual income tax return.
 - Unused credits can be carried back one year or forward 20 years.
- Tax-exempt employers can offset the credit against withholding and Medicare owed for their employees

Tax Q&A



Maintaining Grandfathered Plan Status

- Impacts plans in existence on March 23, 2010
- Grandfathered status can have significant economic value
- Loss of status occurs in many ways (refer to handout)
- Grace period during which employers may revoke changes adopted after March 23 and before June 17

2010 Health Care Coverage Reform Legislation

- Patient Protection and Affordable Care Act (3/23/10)
- Health Care and Education Reconciliation Act (3/30/10)
- Law applies to *all* employer health plans
- Two sets of rules
 - New Health Plans
 - Grandfathered Health Plans
- Employer Tasks



2010 Health Care Coverage Reform Legislation

2010

- Free federal re-insurance for self-funded early retiree plans
- Eliminate lifetime max, pre-x for children under 19, cost-sharing for preventive
- “Simple” Section 125 Plans

2011

- OTC drugs not reimbursable from HFSA, HRAs and HSAs

2012

- 2011 W2s issued by 1/31/12
- Patient-Centered Outcomes Research Trust Fund

2013

- \$2,500 cap on HFSA
- Employee Medicare tax increases

2014

- Employee Free Choice Vouchers
- Eliminate waiting periods over 90 days and all pre-x limitations

Health Care Reform Q&A



Insurance Exchange

- Distribution of Health Care
 - State Run Exchange
 - Online portal for plan comparison
 - State-agency run
 - Private Sector Virtual Company
 - *HealthCompare*
 - *eInsurance*



Lowering Consumption

- Wellness
 - Preventive v. Reactionary Care
 - Increase productivity, boost morale, reduce stress and absenteeism
- Comparative Effectiveness Research
 - Which treatment is most effective, for whom, and under what circumstances?
 - Why do patients in highest-spending regions receive significantly more services than those in the lowest-spending regions, yet outcomes not improved?

Patient-Centered Medical Home

- PCMH
 - Health care setting that facilitates partnerships between patients and physicians
 - Emphasizes patient-centric primary care
 - Value based insurance design
 - Insurers & employers play important role in advancing this promising model



Thank You

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