

# NAVIGATING HEALTH CARE REFORM

Key points on how reform may impact you



## IMPACT OF HEALTH CARE REFORM ON INDIVIDUALS

### DO I HAVE TO HAVE HEALTH INSURANCE COVERAGE?

Although numerous legal challenges wait to be resolved, federal law now directs that, beginning in 2014, U.S. citizens and residents are required to have qualifying health coverage, or “minimum essential health coverage,” for themselves and their dependents. All persons, with very limited exceptions, are required to have this minimum essential coverage with respect to any month or be subject to a penalty. Minimum essential coverage is coverage under any of the following:

- A government sponsored program (e.g. Medicare, Medicaid, CHIP, TRICARE for Life, veteran’s health care program, or the health plan for Peace Corps volunteers);
- An eligible employer-sponsored plan;
- A health plan offered in the individual market within a state; or
- Other coverage which is approved by the regulatory authorities.

### WHAT ARE THE CONSEQUENCES FOR NOT HAVING COVERAGE?

With limited exceptions, after 2013, individuals who do not have qualifying health coverage will be subject to a tax penalty. This penalty is also called a “shared responsibility payment.” The penalty will be the *greater* of:

- A specified flat dollar amount per taxpayer, up to a maximum of three times the specified amount per family; or
- A percentage of household income over the threshold amount of income required for income tax return filing.

As there are important tax implications for not holding required health coverage, and since key exemptions could apply, consultation with a tax advisor before 2013 is strongly suggested.

### WHAT IF I CANNOT AFFORD COVERAGE?

Federal law prescribes a “premium assistance tax credit” to low- and middle-income individuals and families who purchase health insurance through a State Health Care Exchange. The credit is available on a sliding scale determined by income and is generally available for those with household incomes not exceeding four times the federal poverty level and who are not otherwise eligible for Medicaid, employer-sponsored insurance, or other acceptable coverage.

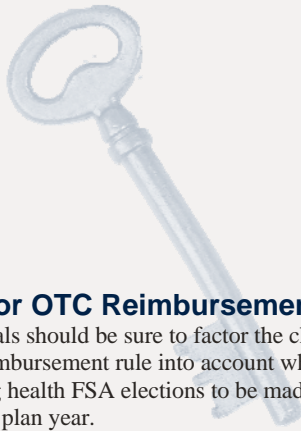


**Health Care Reform law is intended to increase the number of Americans with health insurance coverage.**

### Shared Responsibility Payment

Under new federal law, the penalty phase for the individual coverage mandate begins in 2014, and in 2016 will generally be \$695 annually per individual. Following 2016, the penalty will be indexed for inflation.

| Year | Flat Dollar Penalty | Family Maximum | Percentage of Income |
|------|---------------------|----------------|----------------------|
| 2014 | \$95                | \$ 285         | 1.0%                 |
| 2015 | \$325               | \$ 675         | 2.0%                 |
| 2016 | \$695               | \$2,085        | 2.5%                 |



# REFORM MEASURES

## ADOPTION CREDIT AND ASSISTANCE RULES

Beginning in 2010, and extended through 2011, the adoption tax credit is increased by \$1,000 bringing the total credit available to \$13,170. The exclusion for employer-provided adoption assistance is also increased to \$13,170. Individuals should address any tax credit with their tax advisor.

## OVER-THE-COUNTER REIMBURSEMENTS

Effective after 2010, there is a prohibition on the purchase of, or reimbursement for the costs of, non-prescription over-the-counter drugs (other than insulin) through Health Reimbursement Accounts (HRAs), Health Flexible Spending Accounts (FSAs), Health Savings Accounts (HSAs) or Archer Medical Savings Accounts (MSAs).

## HSA AND MSA PENALTIES

The penalty tax on distributions from Health Savings Accounts (HSAs) or Medical Savings Accounts (MSAs) which are not used for qualified medical expenses will increase from 10% to 20%. This penalty increase is effective with respect to distributions made after December 31, 2010.

## LIMITED HEALTH CARE FLEXIBLE SPENDING ACCOUNT (FSA)

Currently, the amount that can be set aside and reimbursed under a health FSA is determined solely by the employer. However, as of January 1, 2013 a cap of \$2,500 will apply to the amount that may be reimbursed, or made available for reimbursement, under a health FSA. After 2013, this amount will be indexed for inflation.

## MEDICAL EXPENSES DEDUCTIONS

When filing an annual Form 1040, taxpayers can deduct un-reimbursed medical expenses to the extent those expenses exceed 7.5% of the taxpayer's adjusted gross income (AGI). Effective for tax years beginning after December 31, 2012, the threshold for most taxpayers to deduct un-reimbursed medical expenses is raised to 10% of the taxpayer's AGI.

## EXTENDED DEPENDENT AGE COVERAGE

Health care reform legislation also included a provision requiring employer-sponsored group health plans that provide coverage for dependent children to make that coverage available until the child reaches age 26, regardless of that child's marital or student status. Although the law does not mandate coverage for dependent children, *if an employer's plan provides for dependent coverage*, then eligibility must be extended until a child turns 26. This expansion of health coverage eligibility for adult children applies to group health plans regardless of whether the coverage is insured or self-funded. However, eligibility may be limited depending on the grandfather status of the plan.

Thus, the following represent key issues an employee may want to address with his or her employer: (1) whether the plan provides for dependent coverage, (2) whether the group health plan has grandfather status, and (3) when the plan must comply with the dependent age requirement.

## MEDICARE TAXES

Certain taxpayers will be affected by higher Medicare taxes. Under the current law, an employee is subject to a 2.9% Medicare payroll tax, equally paid by the employee and employer (1.45% from employee and 1.45% from employer). The tax is for the Medicare hospital insurance trust fund (HI) which covers hospital bills for Medicare eligible individuals. As of January 1, 2013, an individual earning over \$200,000 and couples earning over \$250,000 will be subject to an additional 0.9% Medicare tax on the excess of those amounts. Thus, the total Medicare HI tax on income over \$200,000/\$250,000 for affected taxpayers will be 2.35% instead of 1.45%.

## Plan for OTC Reimbursements

Individuals should be sure to factor the changed OTC reimbursement rule into account when assessing health FSA elections to be made for the 2011 plan year.

## Consult a Tax Advisor

As tax issues are inherently dependent on individualized circumstances, and as the premium assistance tax credit itself features complicated twists and turns, consultation with a tax advisor is *strongly* advised.

## Medicare Investment Tax

A special Medicare tax will also be applicable to certain investment income beginning in 2013. A new 3.8% tax will be levied against "net investment income" exceeding \$200,000 adjusted gross income and joint filers with an adjusted gross income of \$250,000. Net investment income includes:

- Interest
- Dividends
- Royalties
- Rents
- Gross income from a trade or business involving passive activities
- Net gain from disposition of property (other than for a trade or business)

The new tax only applies to income that exceeds the \$200,000 or \$250,000 thresholds. The tax is also not applicable to earned income tax-deferred retirement accounts such as 401(k) plans or IRAs.