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If you’re a small business trying to maintain affordable insurance for your employees or if you’ve ever needed to purchase an individual health insurance policy, then you understand that individuals and small groups pay more for health insurance than large groups. Health Care Reform aims to level that playing field by setting up insurance “exchanges” to provide a competitive market for individuals and small businesses to purchase insurance.

Estimates are that between 9 and 14 million Americans will obtain their insurance through a health care exchange. The exchanges are scheduled to be open on October 1, 2013, with insurance purchased through them effective on January 1, 2014.

**Health Care Reform Part II – The Exchanges**

Health Care Reform will result in the creation of two exchanges in each state: **American Health Benefit Exchanges** for individuals and **Small Business Health Options Programs (SHOP)** for small businesses. Individuals who cannot obtain affordable insurance through their employers, and small businesses with 100 or fewer employees will be able to access the exchanges in 2014. All businesses will have access to SHOPs in 2017.

While the legislation contemplates that each state would establish its own health insurance exchanges, only fourteen have elected to do so. Twenty-six states have declined to establish exchanges, leaving the task to the federal government. The remaining ten states will run exchanges jointly with the federal government.

The federal government will run exchanges in Indiana, Florida, Ohio, and Arizona while those in Kentucky and Colorado will be state run. Illinois and Michigan exchanges will be federal/state joint ventures.

Among other responsibilities, the exchanges will:

- Maintain a website to allow individuals to compare information on health plans;
- Include a calculator on the website to determine the actual cost of coverage after the application of premium assistance tax credits;
- Certify, for purposes of the individual responsibility penalty, when there has been a failure to maintain health insurance if the individual is exempt from penalty;
- Report to the US Treasury a list of individuals who are issued a certification of an exemption from the penalty for failing to carry health insurance;
- Provide each employer with the name of each of its employees who ceases coverage under a qualified health plan during the year; and
- Establish Navigator programs to publicize exchange information.

The exchanges will offer four levels of benefits to individuals enrolled through the exchange. The higher the level of coverage, the higher the cost to the participant:
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- Bronze level plans paying 60% of covered expenses
- Silver level plans paying 70% of covered expenses
- Gold level plans paying 80% of covered expenses
- Platinum level plans paying 90% of covered expenses

There will also be a child-only plan and a catastrophic plan for individuals under 30.

For employed individuals who purchase health insurance through an exchange, the monthly premiums are made through payroll deductions by the employer.

Health Insurance Premium Assistance Credit

In order to place affordable health insurance within the reach of all Americans, Health Care Reform provides a tax credit to an “applicable taxpayer” for any month that one or more members of the taxpayer’s family is enrolled in qualified insurance through an exchange.

An “applicable taxpayer” is one who:

- Has household income below 400% of the federal poverty line ($94,200 for a family of four; $45,960 for single);
- Files a joint tax return if married;
- May not be claimed as a dependent on another person’s tax return;
- Is a US Citizen or national or an alien lawfully in the US; and
- Is enrolled in a qualified health plan through a health insurance exchange.

To claim the credit, taxpayers must supply the exchange with the prior two years of tax returns. An initial credit is calculated based on the historical income and then reconciled after tax returns are filed for the year.

<table>
<thead>
<tr>
<th>Family Buy-In %</th>
<th>Percent of US Federal Poverty Level</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>100%-133%</td>
</tr>
<tr>
<td>Initial %</td>
<td>2.00%</td>
</tr>
<tr>
<td>Final %</td>
<td>2.00%</td>
</tr>
</tbody>
</table>

Example: Taxpayers are a family of four with an estimated household income of $47,100, which is 200% of the US Poverty Level. Based on the chart above they are expected to contribute 6.3% of their income towards qualified health insurance. Using the individual exchange, they select a “silver” policy costing $12,000 per year. The taxpayer’s Premium Assistance Credit is calculated as follows:
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<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household Income</td>
<td>$47,100</td>
</tr>
<tr>
<td>Family Contribution Rate</td>
<td>x 6.30%</td>
</tr>
<tr>
<td>Family Contribution Amount</td>
<td>$2,967</td>
</tr>
<tr>
<td>Cost of Silver Plan</td>
<td>$12,000</td>
</tr>
<tr>
<td>Less Family Contribution</td>
<td>$(2,967)</td>
</tr>
<tr>
<td>Premium Assistance Credit</td>
<td>$9,033</td>
</tr>
</tbody>
</table>

The credit amount will not be deducted on the tax return but forwarded directly to the exchange to reduce the monthly premium. The amount that the taxpayer pays towards his insurance ($2,967) will be withheld from his pay and forwarded to the exchange by his employer.

When the taxpayers’ actual income for the year is known, any overage or shortage is made up, presumably on his income tax return. However, taxpayers cannot be required to repay more than $2,500 of overpaid premium assistance.

The mechanizations of health insurance reform require a continuous exchange of information between employers and the exchanges to verify an employee’s monthly eligibility for premium assistance. However, on July 5, 2013, the Health and Human Services Department said it cannot have the necessary income verification program in place by the October 1 deadline. Therefore, until further notice, taxpayers will be able to self-certify their income for purposes of the Premium Assistance Credit.

**More Information**

Earlier this month the Administration announced a delay, until 2015, of the requirement that employers with 50 or more employees provide health insurance to employees. Next month we will discuss the individual mandate to have health insurance and the penalties for non-compliance. We’ll also follow the money trail to see who is footing the bill for Health Care Reform.

Please remember that the information provided here is general in nature and is not an individualized recommendation or advice and is not a substitute for consultation with a qualified tax advisor or CPA. If you have questions about how these laws affect you, please give me a call.