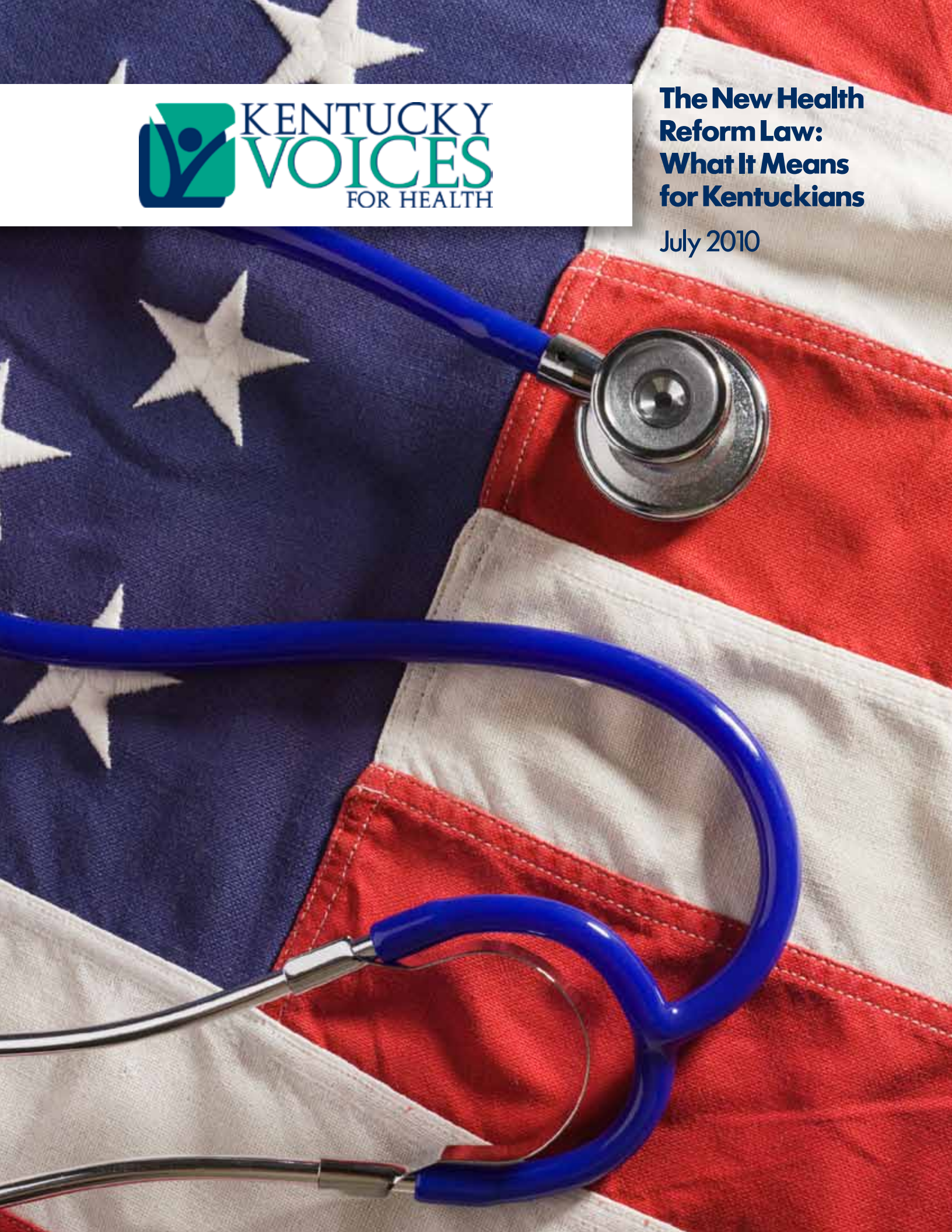




**The New Health  
Reform Law:  
What It Means  
for Kentuckians**

July 2010



The new federal health reform law creates an unprecedented opportunity to provide health coverage to the more than 600,000 Kentuckians who are now uninsured. The Patient Protection and Affordable Care Act of 2010, signed into law on March 23, 2010, will help Kentuckians from all walks of life— young and old, low and middle-income, working and unemployed—to get and keep affordable health insurance while putting safeguards in place to improve quality and contain costs.

This issue brief is intended to help Kentuckians understand the new law. It provides a basic timeline of what will happen under the reforms, describes the impact on Kentucky, presents questions and answers about the new reforms, and offers sources of additional information.

The new health reform law preserves the current public-private system of employer-based coverage while enhancing public programs and private coverage already in place. The law relies on a number of core elements to expand and improve health coverage:

- New insurance rules that promote fairness and provide security to families by prohibiting insurance companies from:
  - cancelling people’s coverage when they get sick
  - imposing caps on coverage
  - refusing to insure someone with a pre-existing health condition
  - charging women more than men for the same coverage
- Expanded Medicaid eligibility to cover people with incomes up to 133% of the federal poverty level (or \$29,326/year for a family of four).
- Medicare improvements for seniors, including free coverage for preventive services without a copayment, drug discounts, and gradual elimination of the prescription drug coverage gap. (This gap is known as the “donut hole” because Medicare covers the first \$2,700 of drug costs in a year and does not pick up coverage again until drug costs reach \$6,154—leaving seniors to pay the full cost in the gap.)
- Health insurance exchanges will be established through which consumers and small businesses may buy affordable coverage and compare health plans based on price and value.

## Health Reform Timeline:

### What Will Happen When

The changes to our health system won’t take place all at once but are scheduled to roll out gradually over the next decade to provide consumers, employers, health providers, and insurers time to implement the new rules.

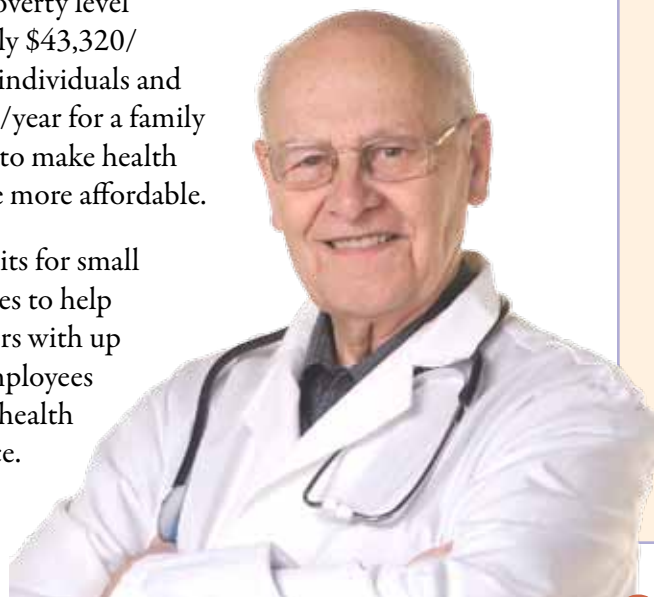
This timeline outlines which of the key elements of the reforms will take effect in each of the next ten years:

## 2010

### 2010 - Immediate Benefits:

- ▶ Begins to close the Medicare prescription coverage gap (the “donut hole”) by providing a \$250 rebate in 2010 to seniors in the gap (starts in 2010 once they have spent \$2,830 on prescriptions). The gap will be fully closed by 2020.
- ▶ Provides tax credits to small businesses with up to 25 employees to help them get and keep coverage for their employees. (Initial tax credits allow for up to 35% of the employer’s portion of health premiums; the maximum credit will increase to 50% by 2014.)
- ▶ Temporary insurance pools (until 2014) will cover people with high-risk conditions who have been denied coverage and who have not been insured for six months. Known as the Pre-Existing Condition Insurance Plan (PCIP),

- Quality initiatives to improve safety, better coordinate care, reduce unnecessary care, and engage patients and their families.
- Accountability for insurance companies by requiring health premiums to be reviewed and justified each year.
- Promoting shared responsibility by requiring individuals to obtain health insurance coverage starting in 2014 and requiring larger employers to pay a portion of employees' health premiums.
- Providing financial subsidies in the form of tax credits to people with incomes up to 400% of the poverty level (currently \$43,320/year for individuals and \$88,200/year for a family of four) to make health coverage more affordable.
- Tax credits for small businesses to help employers with up to 25 employees provide health insurance.



## Health Reform Facts

### The new health reform law will:

- Require members of Congress to get their health coverage from the same plans as millions of Americans.
- Help make health coverage more secure by ensuring working families cannot be denied coverage due to a pre-existing health condition or lose their coverage or be forced into bankruptcy when a family member gets sick.
- Increase competition between insurance companies to help lower costs and prohibit insurance companies from charging women more than men for the same coverage.
- Require insurance companies to cover any child with a pre-existing health condition and allow children to stay on their parents' health insurance until they reach the age of 26.
- Close the Medicare prescription coverage "donut hole" over time and cover prevention services such as free annual check-ups for seniors.
- Provide tax credits to small businesses to make providing coverage to employees more affordable.



## 2011

enrollment began on July 1, 2010. More information can be found at: <http://www.healthcare.gov>.

- ▶ A temporary reinsurance program will provide assistance to employers providing health insurance coverage to retirees over age 55 who are not yet eligible for Medicare.

### New Health Insurance Rules Taking Effect on September 23, 2010:

- ▶ Health plans are required to allow young adults to remain on their parents' health insurance up to their 26th birthday. (Many insurers have agreed to implement this provision immediately.)
- ▶ New health plans will have to cover preventive services, such as cancer screenings and tests, with no co-payments.

- ▶ Health insurers will be prohibited from:
  - Denying coverage to children because of a pre-existing health condition
  - Placing lifetime dollar limits on coverage
  - Dropping people from health coverage when they get sick (policies can only be cancelled for fraud)

## 2011

- ▶ Medicare recipients in the donut hole drug coverage gap will receive a 50% discount on brand name drugs, and co-payments will be eliminated for preventive services like mammograms or prostate cancer screenings.
- ▶ A voluntary long term care insurance program (CLASS-Community Living Assistance Services and Supports)

# Health Reform

## Q&A

Here are some frequently-asked questions about how consumers might be affected by the new health reforms. (Excerpted

from *Consumers Guide to Health Reform*, published by Kaiser News Network and *Health Reform: Frequently Asked Questions*, published by the Kentucky Department of Insurance.)



**Q** What happens if I don't have health insurance?

**A** If you don't have insurance now but want it, there will be more opportunities for you to get it. Under the new law, most Americans will have to have insurance by 2014 or pay a penalty. For individuals, the annual penalty would start at \$95, or up to 1% of income, whichever is greater, and rise to \$695, or 2.5% of income, by 2016. The annual penalty for families is \$2,085, or 2.5% of household income, whichever is greater.

**Q** Will I be required to give up my current coverage?

**A** No. Health plans in effect as of March 23, 2010, are grandfathered under the law and will be considered "qualified coverage," meeting the mandate to have health insurance beginning January 2014.

### 2011

will be created to provide a cash benefit that will help people with disabilities remain in their homes or help cover nursing home costs.

- ▶ Primary care providers practicing in underserved areas will receive a 10% increase in Medicare payments.
- ▶ Health insurers will have to spend at least 80% of the premiums they collect on medical services (rather than on marketing, administration or profits) or give customer rebates.

### 2012

#### 2012

- ▶ Medicare payments will increase to hospitals and doctors who band together in quality-driven "accountable care organizations" to encourage the development of integrated health systems.
- ▶ Medicare payments will be linked to quality outcomes through a hospital value-based purchasing program that rewards quality.
- ▶ New Medicare payment incentives will encourage hospitals to reduce preventable readmissions.

**Q I can't afford health insurance. What are my options?**

**A** Depending on your income, you might be eligible for Medicaid, the state-federal program for low-income and disabled persons. Beginning in 2014, Medicaid will be expanded to adults without children as long as their annual incomes don't exceed \$14,404 for individuals and \$29,326 for a family of four, according to current federal guidelines.

If you earn too much to qualify for Medicaid, you might be eligible for government subsidies beginning in 2014 to help you pay for private insurance that will be sold in the new state insurance marketplaces, called exchanges. Buying coverage through the exchanges is voluntary—you can still use an insurance agent if you choose.

Premium subsidies will be available for coverage purchased in exchanges for individuals with incomes from \$14,404 to \$43,320 and for families with incomes of \$29,326 to \$88,200 for a family of four. The subsidies will be on a sliding scale based on income. For example, a family of four earning \$33,075 a year will have to pay 4% of its income, or \$1,323, in premiums, while a family with income of \$88,200 will have to pay 9.5%, or \$8,379. The rest will be paid by the subsidies.

**Q I have a medical condition. Can I still buy health insurance?**

**A** If you have a medical condition, the law will make it easier for you to get coverage as insurers will be barred from rejecting applicants based on health status starting in 2014. Until then, a temporary federal pre-existing condition insurance plan that was launched on July 1, 2010 will provide coverage for people with medical conditions who have been rejected by an insurer and have been uninsured for at least six months.

**Q How will the new law affect children and young adults?**

**A** Beginning September 23, 2010, insurers can no longer refuse to cover services for specific medical problems for children with pre-existing conditions nor deny coverage to children with pre-existing illnesses. If you're an adult younger than 26, you'll be able to stay on your parent's insurance coverage as long as you are not offered health coverage at work. While this provision also takes effect on September 23, insurers do not have to comply until the beginning of a new health plan year—which is usually in January.

## 2013

### 2013

- ▶ A new program will be established to encourage the creation of nonprofit member-run health insurance co-ops that would compete with commercial health insurers.
- ▶ New tax changes will limit flexible spending account contributions to \$2,500 a year, indexed for inflation. To be eligible for tax deductions:
  - Medical expenses must be 10% of income (instead of the current 7.5%)
  - People over 65 will still be allowed to deduct medical expenses above 7.5% of income through 2016.
- ▶ Medicare payroll tax will increase 0.9% on couples making more than \$250,000 and individuals making more than \$200,000.
- ▶ Health insurers will be required to follow new administrative simplification standards for electronic health information to reduce paperwork and administrative costs.
- ▶ A 2.3% sales tax will be imposed on medical devices.

## Kentucky Medicaid Eligibility Based on the Federal Poverty Level (FPL)\*

	Current Income Limit	Under Health Reform
<b>Parents</b>	Up to 62% of FPL \$13,675 for a family of four	133% of FPL \$29,326 for a family of four
<b>Children (includes KCHIP)</b>	200% of FPL \$44,100 for a family of four	Same
<b>People with disabilities</b>	Individual: 75% FPL (\$8,122) Couple: 83% FPL (\$12,093)	133% of FPL Individual: \$14,403 Couple: \$19,378
<b>Adults with no children</b>	Not Covered	133% of FPL Individual: \$14,403 Couple: \$19,378



## Health Insurance Subsidies

Individual Annual Income*	Individual Annual Subsidy	Family of 4 Annual Income*	Family of 4 Annual Subsidy
\$10,830 to \$21,660	\$1,938	\$22,050 to \$44,100	\$3,967
\$21,661 to \$32,490	\$2,975	\$44,101 to \$66,150	\$5,950
\$32,491 to \$43,320\$	\$3,387	\$66,151 to \$88,200	\$7,973

\*Based on 2009 Federal Poverty Guidelines, levels will be adjusted for inflation.

# 2014

## 2014

- ▶ Medicaid will be expanded to cover people with incomes up to 133% of the federal poverty level, now \$29,326 a year for a family of four. Adults without children will be covered for the first time. The federal government will pick up 100% of the state's expansion cost until 2017, 94% in 2018, 93% in 2019, and 90% in 2020 and later years.
- ▶ New rules will take effect prohibiting health insurers from denying coverage to people with medical conditions or refusing to renew their policy. Health plans will be unable to limit coverage based on pre-existing conditions or charge higher rates to those in poor health. Premiums will vary only on the basis of age, place of residence, family size, and tobacco use.
- ▶ Waiting periods for coverage will be limited to 90 days, and deductibles for small groups (50 employees or less) will be limited to \$2,000 for individuals and \$4,000 for families.
- ▶ New state health insurance exchanges will become operational to function as "supermarkets" for individuals and small businesses to buy coverage. Health plans will be offered in three different tiers (bronze, silver and platinum) with differing levels of co-payments and deductibles.

**Q** What should I do if my insurance company cancels my coverage?

**A** In plan years beginning September 23, 2010, your insurance company must provide advance notice of its intention to cancel your coverage, and it may do so only if you committed fraud or made an intentional misrepresentation of an important fact on your application. If your insurer notifies you that it wants to cancel your policy, and you have not done either of these things, you may file a complaint with the Kentucky Department of Insurance. A complaint form and online submission are available at <http://insurance.ky.gov>.

**Q** Can I still have a Health Savings Account (HSA)?

**A** Yes, the minimum level of coverage required to meet the individual mandate was specifically designed to allow for the purchase of a qualified high deductible plan that would complement the HSA.

**Q** Will businesses have to buy health insurance for their employees?

**A** It depends on the number of employees. Companies with fewer than 50 workers won't be penalized for not providing health insurance. Businesses can get tax credits to help buy insurance if they have 25 or fewer employees and a workforce with an average wage of up to \$50,000. Tax credits of up to 35% of the cost of premiums will be available in 2010 and will reach 50% in 2014. The full credits are for the smallest firms with low-wage workers; the subsidies shrink as a company's workforce and average wages rise. Businesses with more than 50 employees that do not offer coverage will have to pay a fee of up to \$2,000 per full-time employee if any of their workers get government-subsidized insurance coverage in the exchanges. The first 30 workers will be excluded from the assessment.

**Q** How will the law affect seniors on Medicare?

**A** Medicare benefits will be improved under the reforms. Beginning September 23, 2010, the law will make all Medicare preventive services,

▶ Subsidies will be provided (in the form of income-based tax credits) for most consumers who buy insurance through the exchanges, substantially reducing costs for many. The level of subsidy will be based on income. (See chart above left).

▶ All U.S. citizens will be required to have health insurance coverage or pay an annual penalty of \$695 or 2.5% of income, whichever is greater.

▶ Employers with more than 50 employees that **do not** offer coverage will be assessed \$2,000 for each employee receiving federal subsidies to purchase insurance (first 30

2016

employees are exempt from assessment). Employers with more than 50 employees who **offer** coverage will also be assessed up to \$3,000 for each employee receiving federal subsidies (first 30 employees are exempt from assessment).

2016

▶ Two or more states will be permitted to form health care choice compacts and allow any health insurer selling policies in the state to sell coverage through the compact. (Compacts differ from exchanges in that out-of-state insurers will be allowed to sell coverage in all states in the compact.)

such as screenings for colon, prostate and breast cancer, free to beneficiaries. The Medicare prescription-drug benefit will also be improved substantially. In 2010, seniors who enter the prescription drug coverage gap, known as the donut hole, will get \$250 to help pay for their medications. After 2010, discounts and federal subsidies will gradually reduce the gap, eliminating it by 2020. That means that in 2020, seniors who now pay 100% of their drug costs once they hit the donut hole will pay only 25%. Beginning in 2011, drug companies will be required to give a 50% discount on brand-name drugs for prescriptions filled in the donut hole.

Meanwhile, government payments to Medicare Advantage, the private-plan option under Medicare, will be frozen starting in 2011 and cut in the following years. If you're enrolled in a Medicare Advantage plan, you could lose extra benefits that many of the plans now offer, such as free eyeglasses and gym memberships, if the insurer decides to eliminate them.

## **Q** Will my taxes increase to pay for these new reforms?

**A** If you have a high income, you will face higher taxes. Starting in 2013, individuals with earnings over \$200,000 and married couples earning more than \$250,000 will pay a Medicare payroll

tax of 2.35%, up from the current 1.45%. In addition, high-income taxpayers will face a new 3.8% tax on unearned income such as dividends and interest.

Starting in 2018, the law will also impose a 40% excise tax on the portion of most employer-sponsored health coverage (excluding dental and vision) that exceeds \$10,200 a year for individuals and \$27,500 for families. The law also will raise the limit for deducting unreimbursed medical expenses from 7.5% of adjusted gross income to 10%, and limit the amount of money you can put in a flexible spending account to pay medical expenses to \$2,500 starting in 2013.

## **Q** Will the new law increase the federal deficit?

**A** The package is estimated to cost \$938 billion over a decade. But because of higher taxes and fees and billions of dollars in Medicare payment cuts to providers, the package will narrow the federal budget deficit by \$143 billion over 10 years, according to the Congressional Budget Office.

## 2018 - 2020

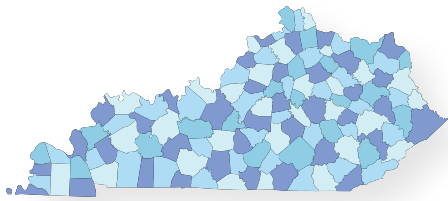
### 2018

- ▶ A tax will be imposed on employer-sponsored health insurance worth more than \$10,200 per year for individual coverage or \$27,500 per year for a family plan.

### 2020

- ▶ The donut hole coverage gap in the Medicare prescription benefit will be eliminated completely. Seniors will continue to pay the standard 25% of their drug costs until they reach the threshold for Medicare catastrophic coverage, when co-payments drop to 5%.





# What Health Reform Means for Kentucky: Estimated Impact

## Kentucky Is A Poor State

With a per capita income of \$32,076 per year in 2009, Kentuckians earn only 80% of the national average, and our average income ranks 47th among the 50 states. More than 17% of our population is below the federal poverty level, compared to 13% nationally. This high poverty level means the cost of health insurance is out of reach for many of our citizens.

## More Than 600,000 Kentuckians Lack Health Coverage

An estimated 626,000 Kentuckians have no health insurance—14.8% of our population. It is important to note that many uninsured Kentuckians are older (49% are aged 35 to 64); 80% are employed, but many work in part-time jobs that don't provide health coverage. Only 41% of small employers in Kentucky (those with fewer than 50 employees) offer health insurance. Young adults (aged 19 to 34) who often work in part-time/low-wage jobs account for 37% of Kentucky's uninsured population.

## Problems of the Uninsured

Surveys conducted by the University of Kentucky reveal a number of problems experienced by uninsured Kentuckians. Because of the cost of health care, the uninsured are:

- Three times more likely than people with insurance not to go to a doctor when sick
- Twice as likely to skip a medical test or treatment recommended by a doctor
- Twice as likely not to fill a prescription than people with insurance
- Almost three times more likely than the insured to have a problem paying a medical bill
- More than twice as likely to be contacted by a collection agency about medical bills

## How Health Reform Will Help Kentucky

Given our low-income status and large uninsured population, the new health reform law contains a number of significant benefits for Kentucky:

### Coverage for pre-existing conditions

The new law prohibits health plans from denying coverage to the estimated **920,000 Kentuckians with pre-existing conditions** (effective September 23, 2010, for children; applies to everyone in 2014).

### Medicare improvements

The health reform law will provide a \$250 rebate to an estimated 129,000 **Kentucky Medicare beneficiaries** who hit the prescription drug donut hole in 2010, and a 50% discount on brand name drugs beginning in 2011. A typical beneficiary who hits the donut hole will see drug cost savings of more than \$700 in 2011 and more than \$3,000 in 2020.

### Coverage for young adults

The law requires health plans to allow an estimated **16,800 young adults** (up to age 26) in Kentucky to remain on their parents' insurance policy at the parents' choice.

### Support for early retirees

An estimated **63,200 Kentuckians** will benefit from the early retiree reinsurance program that provides health coverage to early retirees who are not yet eligible for Medicare.

### Tax credits for families

An estimated **221,000 Kentucky families** with incomes up to \$88,000 for a family of four will receive tax credits to buy coverage through the new health insurance exchanges that will be established in 2014 (average tax credit in 2014 will be \$5,200).

### Tax credits for small business

Tax credits for employer-paid health premiums will be available to an estimated **51,500 small businesses in Kentucky** beginning in 2010 (tax credit goes up to 50% of premium in 2014).

### Coverage of the uninsured

The Medicaid expansions beginning in 2014 will extend coverage to an estimated **261,000 Kentuckians**—approximately 40% of Kentucky's uninsured population. The federal government will pick up 100% of Kentucky's expansion costs until 2017.

# Number of Kentuckians Who Will Benefit from Health Reform, 2010-2020

Health plans prohibited from denying coverage to persons with pre-existing health conditions

**920,000**

Medicaid eligibility expansion to 133% of the Federal Poverty Level

**261,000**

Tax credits for small business to purchase coverage for employees

**51,500 businesses**

Tax credits for families to purchase health insurance

**221,000 families**

Coverage of young adults until age 26 on parent's health insurance

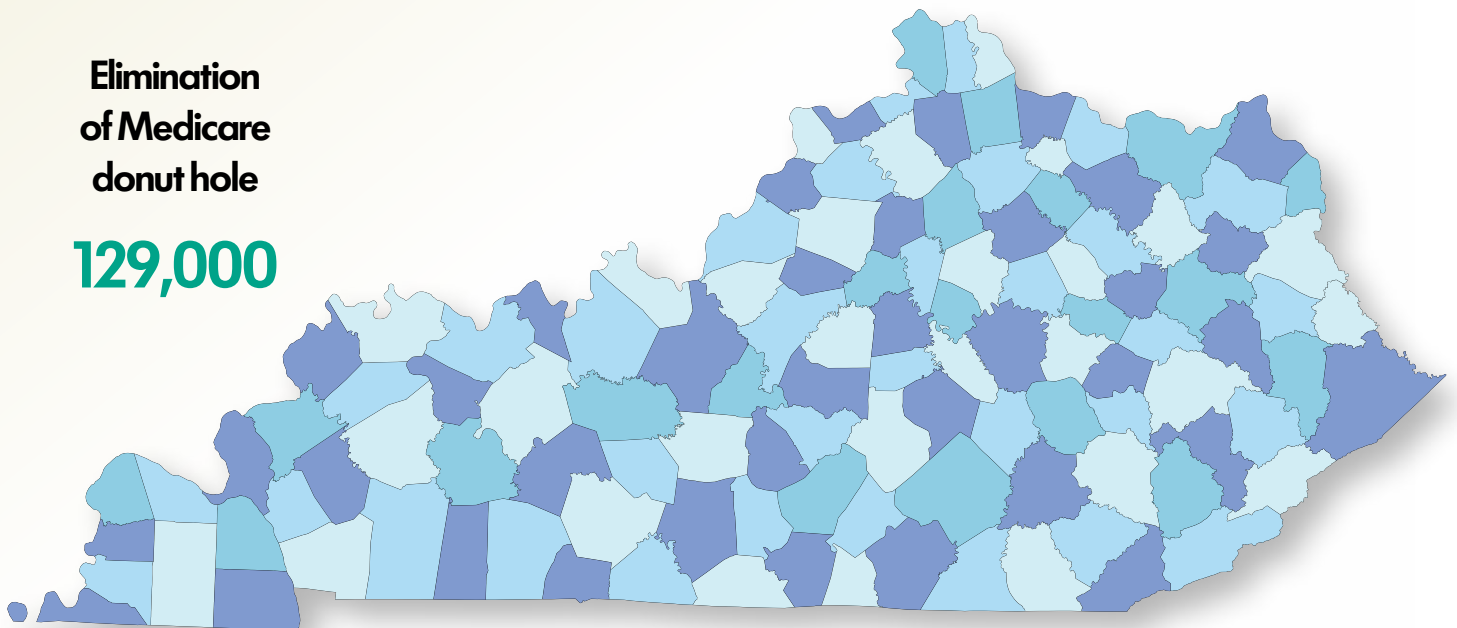
**16,800**

Support for early retirees

**63,200**

Elimination of Medicare donut hole

**129,000**



Data Sources: *What National Health Care Reform Means for Kentucky*, Community Catalyst, 2010; *Help for Kentuckians with Pre-Existing Conditions*, Families USA, May 2010; *The Affordable Care Act: Immediate Benefits for Kentucky*, U.S. Department of Health and Human Services; and *A Helping Hand for Small Business: Health Insurance Tax Credits*, Families U.S.A and Small Business Majority, July 2010

## Resources for Further Information

### Kentucky Department of Insurance

Detailed information on health reform implementation is available on the Kentucky Department of Insurance web site (<http://www.insurance.ky.gov>) under Health Reform Information. Questions may also be submitted via e-mail to [DOI.Info@ky.gov](mailto:DOI.Info@ky.gov) or by calling 1-800-595-6053 (if calling from inside Kentucky).

### Healthcare.gov

New federal web site (<http://www.healthcare.gov>) with state-by-state information where individuals and small businesses in Kentucky can access information about available health insurance plans and can download an application for the Pre-Existing Condition Insurance Plan.

### Medicaid

Information about Medicaid is available on the Kentucky Cabinet for Health and Family Services web site (<http://www.chfs.ky.gov/dms/Eligibility.htm>) or by contacting your local Department for Community Based Services office, which can be found on the web: ([https://www.apps.chfs.ky.gov/Office\\_Phone/index.aspx](https://www.apps.chfs.ky.gov/Office_Phone/index.aspx)).

### Medicare

Information about Medicare and health reform can be found online (<http://www.medicare.gov>) and individual questions can be answered by calling the Medicare Helpline toll-free at 1-800-633-4227.

### The Kaiser Family Foundation

(<http://www.healthreform.kff.org>): An independent, non-profit organization that offers extensive information about the health reform law.

### Kentucky Voices for Health

(<http://www.kyvoicesforhealth.org>): A wide range of health reform resources, including issue briefs about the importance of health reform in Kentucky.

### Families USA

(<http://familiesusa.org>): Families USA: The Voice for Health Care Consumers is a nonprofit advocacy organization which offers resources on finding, choosing and using health coverage.

### Community Catalyst

(<http://www.communitycatalyst.org>): Community Catalyst is a national advocacy organization dedicated to building consumer and community participation in the shaping of our health system.

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*Building a healthy Kentucky together.*

We're a coalition of concerned Kentuckians who believe that the best health care solutions are found when everyone works together to build them. Right now, families and businesses in every county are facing rising costs, and too many of us go without needed health care. Healthy families create healthy economies. And a healthy Kentucky economy is something we all want. So we're working step by step to build a healthier Kentucky for everyone.

For more information: [www.kyvoicesforhealth.org](http://www.kyvoicesforhealth.org)