

# UNDERSTANDING THE NEW WORLD OF HEALTH INSURANCE

Webinar | [Kitces.com](http://Kitces.com)

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# UNDERSTANDING THE GOALS OF THE AFFORDABLE CARE ACT

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## PATIENT PROTECTION & AFFORDABLE CARE ACT

- Health Insurance Exchanges
  - Offer health insurance that is guaranteed issued without any medical underwriting
  - Premiums based on age, family size, smoking status, geography
  - Obviously concerns for adverse selection
- Individual Shared Responsibility Tax (mandate)
  - Purchase coverage or face a tax penalty
  - Helps/aims to reduce adverse selection

## PATIENT PROTECTION & AFFORDABLE CARE ACT

- Premium Assistance Tax Credits
  - Manage the fact that not everyone can afford coverage
  - Assistance based on income
- Employer Shared Responsibility Tax (mandate)
  - (Large) employers must offer coverage & make it affordable or face a tax penalty

## PATIENT PROTECTION & AFFORDABLE CARE ACT

- Overall policy goals
  - Provide access to insurance coverage in a forum easier to shop for (and price compare) coverage
  - Eliminate need for employment to gain access to coverage
  - Lift minimum coverage requirements
  - Manage adverse selection by implementing mandates
  - Manage affordability with tax credits to help avoid mandates
  - Use employer mandates to avoid having all companies shift employees to health insurance exchanges

## PATIENT PROTECTION & AFFORDABLE CARE ACT

- Notable Points Of Confusion
  - NOT the government offering health insurance or providing care!
    - Insurance, and care, still provided by private sector
    - There are no "Obamacare" insurance policies
    - Use of incentives and penalties to "ensure" private sector conforms to policy goals

# ESSENTIAL HEALTH BENEFITS

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## UNDERSTANDING ESSENTIAL HEALTH BENEFITS

- Sets a series of minimum health care offerings that are “required” to be included in health insurance in 2014
  - Some older plans grandfathered (but rolling off)

Doctor’s Visits & Outpatient Svcs	Emergency Services (no pre-auth)	Hospitalization	Maternity & newborn care	Mental health & substance abuse
Prescription drugs	Rehabilitative services & devices	Laboratory services	Preventive & wellness svcs	Pediatric svcs, inc. oral & vision

- Details set by states, w/ some latitude for health insurers
- Rules also require:
  - No maximum lifetime dollar limits on essential health benefits
  - Annual limits cannot exceed HDHP thresholds

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# HEALTH INSURANCE EXCHANGES

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## HEALTH INSURANCE EXCHANGES

- Open enrollment began October 1st
  - Policies that are purchased will take effect beginning 2014
  - Exchanges may be run by states or Federal government
- Policies on exchanges from private insurers
  - Participation is voluntary, but market potential is big

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## HEALTH INSURANCE EXCHANGES

- Actually two separate types of exchanges
  - Individual marketplace
  - Small business Health Options Plans (SHOP) marketplace
- Insurance exchanges will:
  - Enroll individuals & small businesses
  - Determine eligibility for tax credits & subsidies
  - Overall compliance with ACA rules
  - Provide consumer assistance

## HEALTH INSURANCE EXCHANGES

- Types of insurance available – four tiers
  - Bronze, Silver, Gold, Platinum
  - Plans vary based on actuarial value of coverage (60% - 90%)
  - Individual benefits vary by plan, within actuarial guidelines
    - Differences in coinsurance, copays, etc.
  - All coverage must conform to HDHP out-of-pocket annual limits, no lifetime maximums, & essential health benefits
    - Can still be eligible for HSA, if deductible is high enough
- Catastrophic coverage
  - Available as 5th type of plan
  - For those under age 30, or for whom coverage is unaffordable (premiums > 8% of income)

## HEALTH INSURANCE EXCHANGES

- SHOP coverage
  - Lower out-of-pocket limits
    - \$2,000 for individuals, \$4,000 for families
  - Employees buy whatever coverage/tier/provider they want
    - Not limited to a single insurer
    - One-year delay means single insurer for 2014-only!
  - Prices based on individual employees, not group!
    - Including adjustments for age, family size, and potentially tobacco status

## COST OF (EXCHANGE-BASED) HEALTH INSURANCE

## COST OF (NEW) HEALTH INSURANCE

- Large Employers (50+ employees)
  - Basically no change from current world in policies or pricing
  - SHOP rules may become available in 2017
  - Some large employers even considering private exchanges
- Small Employers
  - May stay with traditional coverage shopping, or new SHOP exchange
  - Individual employee pricing may mean significant changes for certain employees
  - Using SHOP exchange may allow for small business health insurance tax credit
    - Requires <25 employees w/ <\$50,000 average wages

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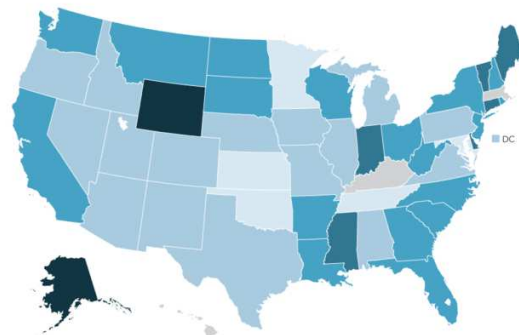
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## COST OF (NEW) HEALTH INSURANCE

- Individuals
  - Coverage generally coming in similar to small group pricing
    - Basic bronze plans starting ~\$250-\$350/mo for 40-year-olds?

### How Obamacare Prices Shake Out

Here are the average state prices for basic health coverage with a high deductible, released by the Obama administration.



Average weighted premium cost for the lowest bronze tier

Source: Huffington Post infographic, based on data from Health & Human Services

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## COST OF (NEW) HEALTH INSURANCE

- Individuals
  - May be significantly higher or lower than prior individual cost
    - What were coverage requirements already?
    - How much higher are essential benefits mandates?
  - Limitations on price spread from young to old bringing up costs for young (& pushing down for old)
    - Creates concern given younger are also healthier & may opt out of coverage
- Many will not pay "full" sticker price due to tax credits

## PREMIUM ASSISTANCE TAX CREDITS

## PREMIUM ASSISTANCE TAX CREDITS

- For individuals below 400% of Federal Poverty Level
  - Estimated that 2/3rds of households would be eligible
- Income based on AGI plus...
  - Excluded foreign earned income & housing assistance
  - Tax-exempt interest
  - Social Security benefits (to extent not already taxable)

Household Size	Federal Poverty Level (Percentage Of)					
	100%	133%	150%	200%	300%	400%
1	\$11,490	\$15,282	\$17,235	\$22,980	\$34,470	\$45,960
2	\$15,510	\$20,628	\$23,265	\$31,020	\$46,530	\$62,040
3	\$19,530	\$25,975	\$29,295	\$39,060	\$58,590	\$78,120
4	\$23,550	\$31,322	\$35,325	\$47,100	\$70,650	\$94,200
5	\$27,570	\$36,668	\$41,355	\$55,140	\$82,710	\$110,280
6	\$31,590	\$42,015	\$47,385	\$63,180	\$94,770	\$126,360
7	\$35,610	\$47,361	\$53,415	\$71,220	\$106,830	\$142,440
8	\$39,630	\$52,708	\$59,445	\$79,260	\$118,890	\$158,520
Each add'l	\$4,020	\$5,347	\$6,030	\$8,040	\$12,060	\$16,080

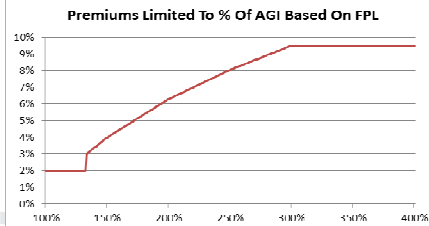
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## PREMIUM ASSISTANCE TAX CREDITS

- Applies only if purchasing qualifying health plan
  - *And not already receiving essential health benefits*
  - Income verification via exchanges ("honor system" 2014?)
- System "caps" premiums at percentage of income
  - Excess above threshold is covered by tax credit
    - Excess based on cost of second-lowest Silver plan
  - Credit is paid directly to exchange; consumer pays what's left

Income relative to FPL:	Premiums limited to:
Up to 133% of FPL	2% of income
133% to 150% of FPL	3% to 4% of income
150% to 200% of FPL	4% to 6.3% of income
200% to 250% of FPL	6.3% to 8.05% of income
250% to 300% of FPL	8.05% to 9.5% of income
300% to 400% of FPL	9.5% of income



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## PREMIUM ASSISTANCE TAX CREDITS

- Bill is single 35-year-old non-smoker earning \$25k
  - Income is 218% of FPL (in 2013)
  - Maximum premium is 6.93% of income = \$1,733/yr
  - Actual premium of second-lowest Silver plan: \$300/month
  - Premium tax credit = \$1,867/year
  - Bill pays \$144.42/mo (\$1,733/yr) for his coverage

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## PREMIUM ASSISTANCE TAX CREDITS

- If Bill is a smoker...
  - Premiums \$500/month (if state allows tobacco ratings)
  - Premium tax credit still (only) \$1,867/year
  - Bill pays \$344.42/month!
- If Bill earns \$40,000/year
  - 348% of FPL, maximum premium \$3,800
  - Only paying \$3,600, no premium tax credit
  - If Bill was 55, though...

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## PREMIUM ASSISTANCE TAX CREDITS

- Because premium tax credit is calculated only based on income, and not age...
  - Results in greater (relative) tax credits for older individuals
  - More limited for those whose premiums are already lower

Income Relative To FPL	Max Prem % of Income	Family Size				
		1	2	3	4	5
100%	2%	\$229.80	\$310.20	\$390.60	\$471.00	\$551.40
132.9%	2%	\$305.40	\$412.26	\$519.11	\$625.96	\$732.81
133.0%	3%	\$458.45	\$618.85	\$779.25	\$939.65	\$1,100.04
150%	4%	\$689.40	\$930.60	\$1,171.80	\$1,413.00	\$1,654.20
200%	6.3%	\$1,447.74	\$1,954.26	\$2,460.78	\$2,967.30	\$3,473.82
250%	8.05%	\$2,312.36	\$3,121.39	\$3,930.41	\$4,739.44	\$5,548.46
300%	9.5%	\$3,274.65	\$4,420.35	\$5,566.05	\$6,711.75	\$7,857.45
350%	9.5%	\$3,820.43	\$5,157.08	\$6,493.73	\$7,830.38	\$9,167.03
400%	9.5%	\$4,366.20	\$5,893.80	\$7,421.40	\$8,949.00	\$10,476.60

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## PREMIUM ASSISTANCE TAX CREDITS

- If credit is underpaid, remainder comes on tax return
- If credit is overpaid...
  - Only up to \$600 must be repaid if under 200% of FPL
  - Only up to \$1,500 repaid up to 300% of FPL
  - Only up to \$2,500 repaid up to 400% of FPL
  - (50% of above amounts for single individuals)
  - Full repayment required for those over 400% of FPL
- Health insurance premiums still deductible
  - But 10%-of-AGI threshold now (under age 65)
  - Only deductible to extent not covered by tax credit
- Those under 133% of FPL may be eligible for Medicaid
  - Potential gap for those under 100% of FPL if states don't expand

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## ADDITIONAL COST SUBSIDIES

- Further cost subsidies apply for low-income individuals in Silver plans

- Maximum out-of-pocket limits reduced
- E.g., 175% of FPL = \$2,117 max out of pocket

Income	Out-of-Pocket Limit
100% - 200% of FPL	1/3 of HDHP limit (2/3rds reduction)
200% - 300% of FPL	1/2 of HDHP limit
300% - 400% of FPL	2/3 of HDHP limit (1/3rd reduction)
Above 400% of FPL	Normal (100%) of HDHP limit

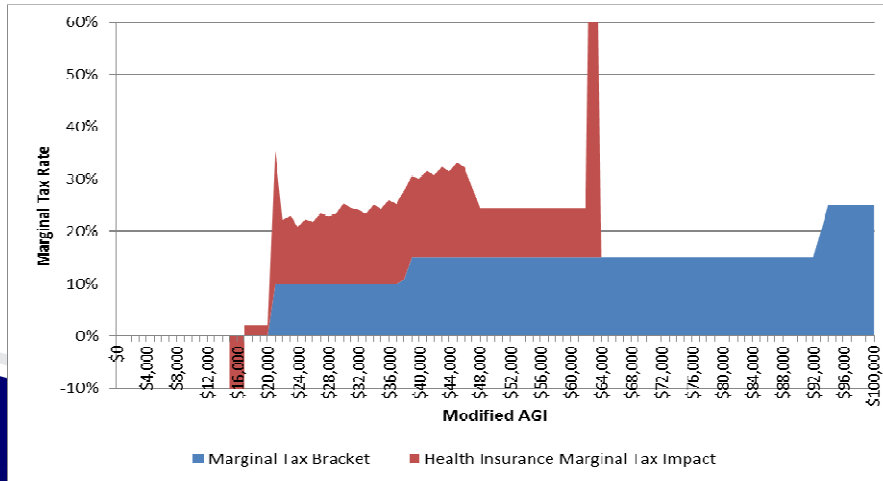
- Further policy subsidies for those under 250% FPL
  - Actuarial equivalents boosted to 73%, 85%, or 94% for those under 250%, 200%, and 150% of FPL
  - Net result will be more favorable out of pocket maximums, copays, coinsurance, etc., for same premium

## PREMIUM ASSISTANCE TAX CREDITS

- Increases in income can phase out premium tax credit
- Ted & Janet, family of 4, earns \$50,000/year
  - 212% of FPL for household of 4
  - Premiums capped at 6.72% of income, or \$3,360
  - If Silver plan cost was \$12,000/year, premium tax credit \$8,640
- If Ted & Janet earn another \$10,000...
  - Now 255% of FPL, maximum premium 8.19%
  - Premium threshold now \$4,913/year
  - Will pay another \$1,553 of premiums, plus another \$1,500 of taxes (at 15% bracket)
    - Marginal rate equivalent to 30.53%!

## PREMIUM ASSISTANCE TAX CREDITS

- Marginal tax bracket + premium tax credit phaseout

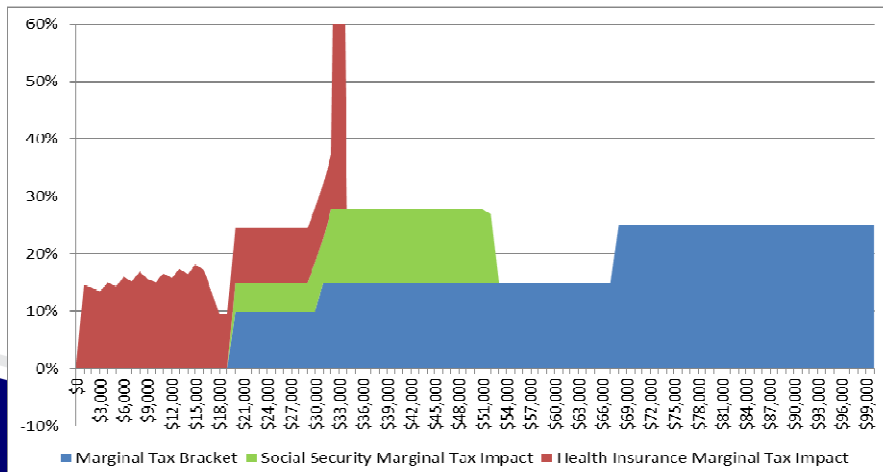


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## PREMIUM ASSISTANCE TAX CREDITS

- For 62-year-old couple also earning Social Security...



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## PREMIUM ASSISTANCE TAX CREDITS

- Makes income tax planning more relevant
- Households face surprisingly high marginal tax rates
  - Significant bump in premiums crossing 400% of FPL threshold
  - Especially severe for older individuals with higher premiums
  - Moot point for couples reaching age 65 (Medicare)
  - "Invisible" bump at 250% of FPL as well (cost subsidies)
- Tax strategies may include...
  - Spreading income, or lumping together above 400% of FPL
  - Deferring income beyond onset of Medicare
  - Be cautious about tax tail wagging investment dog...
    - Except crossing over 400% of FPL when it may be worth it!

## INDIVIDUAL SHARED RESPONSIBILITY TAX (INDIVIDUAL MANDATE)

## INDIVIDUAL SHARED RESPONSIBILITY TAX

- The “Individual Mandate” rule
  - Applies a penalty for failing to get minimum essential benefits
    - From individual exchange, employer coverage, or social programs
    - Grandfathered plans also exempt
  - Exemptions apply for:
    - Financial hardship (premiums > 8% of income)
    - Income below tax filing threshold
    - Religious exemptions, illegal aliens, American Indians
    - Those without coverage for <3 months

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## INDIVIDUAL SHARED RESPONSIBILITY TAX

- Phases in over 3 years
  - 2014 – Greater of \$95 or 1% of household income
  - 2015 – Greater of \$325 or 2% of household income
  - 2016 & beyond – Greater of \$695 or 2.5% of income
  - Dollar amounts apply per (uninsured) person
- Calculating the penalty
  - Household income based on AGI (combined for all covered family members) *in excess of filing threshold*
    - Add back foreign income exclusions, tax-exempt interest
- Dollar penalty capped at 300% of max individual
  - Children <18 face only 50% of penalty rate
  - Penalty capped at cost of bronze plan

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## INDIVIDUAL SHARED RESPONSIBILITY TAX

- Larry & Jenny have household income of \$120,000
  - Income is \$100,500 over filing threshold
  - Penalty of  $\$95 \times 2 = \$180$ , or 1% of \$100,500 = \$1,005
  - Penalty rises to \$2,512.50 by 2016
  - Penalty may still be far less than cost of coverage!

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## INDIVIDUAL SHARED RESPONSIBILITY TAX

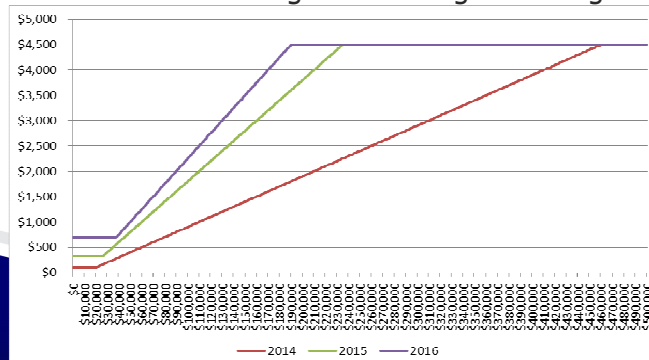
- Jeff is single, earning \$23,000
  - Penalty in 2014 is \$132.50 (1% over threshold)
  - In 2016 penalty is flat \$695
  - Even w/ premium tax credit, coverage = \$1,450/year?
- Harry is single, earns \$250,000/year
  - Penalty in 2014 is \$2,402.50
  - Penalty in 2016 is \$6,006.25
  - Penalty may cap at cost of coverage by 2016!

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## INDIVIDUAL SHARED RESPONSIBILITY TAX

- Penalty “easily” avoided by just buying coverage
  - Penalty may still be far cheaper than coverage
    - Except for “very” high income households
    - Penalty more noticeable by 2016 for %age of income
    - Does reduce marginal cost to get coverage



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## INDIVIDUAL SHARED RESPONSIBILITY TAX

- ISRT penalty more “incentive” for young?
  - Smaller difference from penalty to ISRT
    - But also less benefit from premium tax credit?
- Some clients may simply choose to pay penalty
  - Not appealing for planners who like to insure
  - But notably a cheaper way out
    - Though check for catastrophic coverage options?
    - Remember ISRT not deductible!
- Effectiveness of mandate has big policy implications
  - Risk of adverse selection spiral w/o participation

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# OVERALL PLANNING IMPLICATIONS/ISSUES

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## OVERALL PLANNING FOR HEALTH INSURANCE

- Overall planning for new world of health insurance
  - Health insurance exchanges
    - Breaks the link between employment status & insurance access
      - If clients could get health insurance regardless of employment status, would they make a change?
        - New job/career
        - Self-employment/entrepreneurship
        - Small businesses more competitive?
        - Early retirement?

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## OVERALL PLANNING FOR HEALTH INSURANCE

- Overall planning for new world of health insurance
  - Planning for premium assistance tax credit will be key
    - Most clients will choose coverage over penalty
  - Employer situation will be slower to change
    - Requires change in perceptions about employee benefits?
  - Stay tuned for further implementation “bumps”!

## QUESTIONS?

**More information from Michael at:**

*Nerd's Eye View:* [www.kitces.com/blog](http://www.kitces.com/blog)

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