

# THE HEALTHCARE REFORM LAW



A SEMA MEMBER GUIDE



# SEMA MEMBERS WANT TO KNOW...

## WHEN DID "OBAMACARE" TAKE EFFECT?

It is being phased-in over 10 years beginning in 2010, with new requirements and benefits being added each year. The most consequential change occurs on January 1, 2014, when individuals are required to obtain minimum levels of insurance, on their own or through their employer or the government (Medicare/Medicaid).

**How the law impacts companies and their workers can be summarized in two questions.**

- Does your company offer health insurance?
- Is the size of your company 49 or fewer workers?

## IS MY COMPANY REQUIRED TO OFFER HEALTH INSURANCE?

No, for "small" companies (49 or fewer employees). A qualified 'yes' for "large" companies (50 or more employees) as of 2014. There is no requirement to offer insurance. However, a large company that chooses not to offer insurance will incur a non-deductible \$2,000 penalty for every full-time worker when at least one full-time worker obtains a subsidy from the federal government to purchase an individual plan.

## MY COMPANY ALREADY OFFERS INSURANCE. IS THAT ENOUGH?

As of 2014, most plans offered by insurance companies will cover 10 categories of "minimum essential health benefits," from hospitalization to prescription drugs. For large companies, check with your insurance professional to confirm that your plan meets the law's requirements or is otherwise exempted. For small companies, there is no obligation to provide coverage, although the government encourages it.

## CAN THE WORKER PAY A PORTION OF THE PREMIUM?

Yes, but the worker's portion must be "affordable." It is not affordable if it exceeds 9.5% of the worker's household income. A company that is required to offer insurance faces a \$3,000 penalty for each full-time worker that obtains a federal health care subsidy because their portion was deemed "unaffordable."

*SEMA recommends that member companies review their current situation, consult with health care insurance professionals and determine how best to proceed.*

## WHAT ARE THE EXCHANGES?

Beginning in 2014, companies with 50 or fewer employees (and in some states companies with 100 or fewer workers) will be able to purchase private-sector health insurance for their employees through exchanges. Exchanges will offer a range of health plans and are intended to infuse competition within the private insurance marketplace. Purchasing insurance through the exchange is voluntary.

## WHAT IF I STILL HAVE QUESTIONS?

Please take the time to review the information contained in this booklet. For specific inquiries regarding your company, please consult with a qualified insurance professional. SEMA is maintaining additional information at [www.sema.org/healthcare](http://www.sema.org/healthcare)



**FOR ADDITIONAL INFORMATION**  
[www.sema.org/healthcare](http://www.sema.org/healthcare)

## CONFUSED ABOUT THE NEW HEALTH CARE LAW?

# SEMA MEMBERS NEED TO KNOW...

### MOST POLICIES TO COVER "ESSENTIAL HEALTH BENEFITS"

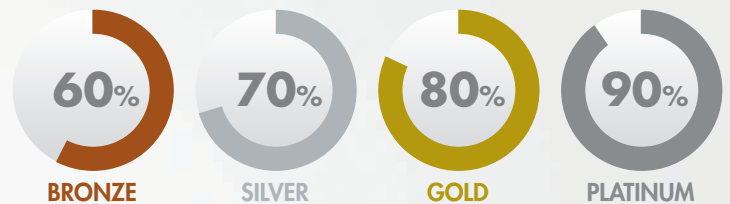
As of 2014, most policies offered through the exchanges and in the individual and small group market must include minimum levels of coverage in 10 categories deemed to be essential. Service categories include doctor/outpatient, emergency, hospitalization, maternity/newborn, pediatric, mental health, substance abuse, rehabilitation, laboratory, preventive and wellness, along with coverage for prescription drugs, oral and vision care.

### EXCHANGES

For years, SEMA lobbied in favor of legislation that would allow small companies to purchase nationwide insurance or bargain collectively across state lines, thereby infusing competition into the marketplace. The Affordable Care Act provides a variation on that approach through "exchanges."

The exchanges are set to be operational by October 1, 2013, in order to voluntarily enroll people in coverage that will take effect on January 1, 2014. Under the exchange, small businesses and individuals will be offered a menu of private-sector health plans that have been established under common rules regarding the offering and pricing of insurance. The exchange has the ability to pool a large number of potential consumers and help organize a more competitive marketplace.

Exchanges will be state-based. Each state has the option of opening the exchange to businesses with 50 or fewer workers, or 100 or fewer workers. There will be four benefit categories of exchange plans, plus a separate catastrophic plan. All of the plans will provide essential health benefits with an initial out-of-pocket limit of \$6,250 per individual or \$12,500 per family. The plans will differ in the amount of covered costs:



### INDIVIDUAL MANDATE

Individuals will be required to obtain "essential minimum coverage" for themselves and their dependents, beginning in 2014, to ensure that everyone participates in the system. This "universal coverage" will increase the risk pool and potentially reduce overall costs. If individuals do not obtain coverage, a penalty will be assessed in 2014 in the amount of \$95 or 1% of annual income, whichever is greater. This penalty will increase in 2015 to \$325 or 2% of annual income and again in 2016 to \$695 or 2.5% of annual income. Penalties for family coverage will be higher, but will not exceed the annual income percentage caps listed above. After 2016, the penalties increase by a cost-of-living adjustment. The government will provide subsidies for lower-income and unemployed individuals.

## 2010

Children permitted to stay on parents' policies until 26<sup>th</sup> birthday

Lifetime limits on coverage prohibited



## 2011

Insurers must justify rate hikes more than 10% to the state

Insurers must spend at least 80% of profits on health care or provide rebates



## 2012

Very large employers (250 or more workers) must begin reporting the value of health care benefits on employees' W-2 statements



## 2013

0.9% surtax is added to the 1.45% Medicare payroll taxes paid by those earning more than \$200,000 per year or joint filers earning more than \$250,000 per year

3.8% Medicare tax is imposed on investment income from capital gains, interest, dividends, annuities, royalties and rent

Health care flexible spending account contributions limited to \$2,500

## EMPLOYER MANDATE

The law imposes significant requirements on mid- and large-sized companies but is less restrictive on small businesses. Employers with 49 or fewer employees are not required to offer health insurance. Very small companies (25 or fewer employees) are provided tax credits as an incentive to voluntarily offer coverage.

Companies with 50 or more full-time (working 130+ hours per month) or "full-time equivalent" employees must offer health insurance by 2014 or be penalized as soon as any full-time employee receives a government subsidy under the individual mandate. If the penalty is triggered, the government will impose a fee of \$2,000 for all full-time employees, minus the first 30 full-time employees. For example, a company with 51 full-time employees would be assessed a fine of \$42,000 annually.

### How to Determine "Full-Time Equivalent" Employees

<b>Full-Time Employees</b> (30 hours/week or more = 130 hours/month)	+	<b>Part-Time Employee Equivalents</b> (total monthly part-time hours divided by cap of 120 hours)	=	<b>Full-Time Equivalent Employees</b>
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*Example:* A company employs 40 full-time workers and 20 part-timers working an average 20 hours per week or 80 hours per month.

<b>40</b> Full-time employees	+	<b>13</b> Part-time employee equivalents (20 x 80 / 120 = 13)	=	<b>53</b> Full-time equivalent employees
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*Note:* While the number of part-time workers is used to determine whether a company has met the 50 "full-time equivalent" employee threshold for offering coverage, the \$2,000 penalty is only imposed on full-time employees, not part-time workers.



## 2014

Exchanges for small businesses take effect

Individuals must have minimum insurance or pay a penalty

Large companies (50 or more full-time workers) must offer affordable coverage or risk a fine of \$2,000 per employee, excluding the first 30 employees

Insurance companies barred from denying coverage or charging significantly higher premiums for individuals with a pre-existing illness

Three-year fee will be imposed on employers to create a \$25 billion fund to cover associated insurance costs



## 2015

Penalty for individuals without insurance rises to \$325, capped at greater of \$975 per family or 2% of family income

Doctor's income to be based on quality rather than quantity of care provided

## 2016

Penalty for individuals without insurance rises to \$695, capped at the greater of \$2,085 per family or 2.5% of family income and then tied to inflation



Even when offering insurance, a company is exposed to one other potential penalty based on "affordability." If the worker is picking up a portion of the premium cost, it must be affordable. It is not affordable if it exceeds 9.5% of the worker's household income or if the plan does not cover at least 60% of medical costs. Also, deductibles for fully insured small group plans are limited to \$2,000 for employee-only coverage and \$4,000 for family coverage, and then indexed to inflation. Verifying affordability may require a complex computation but there is a safe-harbor option based solely on the worker's income. The issue of affordability is generally associated with lower-wage workers. It is consequential since the company will face a \$3,000 penalty for each individual full-time worker that obtains a health care subsidy from the federal government.

The law includes a non-discrimination clause for employer-provided plans. Tentatively scheduled to take effect in 2014, a group health benefit plan could no longer discriminate in eligibility, waiting period, benefits or contributions in favor of highly-compensated employees. It would overturn current practice which allows executives to receive more generous coverage than other employees as part of a compensation package. The business community is awaiting a final ruling on whether the clause will take effect or be overturned.

### SMALL BUSINESS TAX CREDITS

The law provides an immediate tax credit to small employers that purchase insurance if they have no more than 25 employees with average annual wages of less than \$50,000. The credit varies according to size, wages and the amount of employer contribution for the premium. Beginning in 2014, small businesses that purchase through an exchange will be eligible for a two-year tax credit, based on firm size and average annual wages.

### TAXES

In 2013, a new 0.9% surtax was added to the 1.45% Medicare payroll taxes paid by individuals earning more than \$200,000 per year or joint filers earning more than \$250,000 per year. Another 3.8% Medicare tax was imposed on the same individuals/couples on investment income from capital gains, interest, dividends, annuities, royalties and rent.

In 2013, the threshold for claiming medical expense deductions rose from 7.5% of adjusted gross income to 10%. (The threshold remains at 7.5% for individuals 65 or older until 2016.) Contributions to health care flexible spending arrangements were limited to \$2,500, and then indexed to inflation.

As of January 1, 2014, health insurers are forbidden from turning away people with pre-existing conditions. A \$25 billion federal fund will help insurance companies cover the costs of previously uninsured people with medical problems. The fund will be financed by a three-year fee imposed on employers for each person insured under a plan. The fee will start at \$63 at the end of 2014 but decrease to about \$40 in 2015 and \$28 in 2016. Some employers are expected to pass along the fee to workers.

### HEALTH INSURANCE PREMIUM COSTS

Implementation of the new health care law has so many complexities and unknown variables, it is nearly impossible to predict its effect on the cost of health care premiums. For example, the exchanges are intended to stabilize prices through marketplace competition but it is unclear whether companies and individuals will fully participate in the exchanges. SEMA will continue to advocate for meaningful reforms intended to reduce premium costs.

## 2017

Businesses with more than 100 workers may buy coverage through exchanges, if state permits

States have the authority to implement their own plans



## 2018

40% excise tax on insurers takes effect for high-cost health insurance plans



**FOR ADDITIONAL INFORMATION:**  
[www.sema.org/healthcare](http://www.sema.org/healthcare)

**SEMA Government Affairs Office**  
**202-783-6007**

*SEMA recommends that member companies review their current situation, consult with health care insurance professionals and determine how best to proceed.*

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