

# THE IMPACT OF HEALTH CARE REFORM ON NONPROFIT ORGANIZATIONS

By Michael Harp, MA

# Agenda

**Why Reform?**

**Tax Subsidies for Nonprofit Organizations**

**Timeline of Changes**



# Why Reform?

## The Uninsured

Number of uninsured has reached an all time high  
46 Million people in the U.S. are uninsured (Kaiser)

## Relative Cost of Health Insurance

Health Insurance for the past 10 years has risen about 9% per year (Kaiser).

CPI was 2.65% per year over the same time period (U.S. Department of Labor).

CPI – Consumer Price Index measures changes through time in the price level of [consumer goods](#) and [services](#) purchased by households. The CPI is defined by the United States [Bureau of Labor Statistics](#) as "a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services."

## Wide Impact

60% of employers offer health benefits in 2009

46% of firms with 3 to 9 workers

72% of firms with 10 to 24 workers

95% of firms with 50 or more workers

Employer Health Benefits 2009 Summary of Findings, by The Kaiser Family Foundation and Health Research & Educational Trust

## Unsustainable Increases

1999 Family Health Insurance Premium = \$5,791

2009 Family Health Insurance Premium = \$13,375


Employer Health Benefits 2009 Summary of Findings, by The Kaiser Family Foundation and Health Research & Educational Trust



## Federal Health Care Reform Law

The Patient Protection and Affordable Care Act (H.R. 3590) was signed into law on March 23, 2010.

The companion bill, the Health Care and Educational Reconciliation Act (H.R. 4872), was signed into law on March 30, 2010.



# **Tax Subsidies for Nonprofit Organizations**

## Eligibility Rules

Effective 2010

**Providing health care coverage:** A qualifying employer must cover at least 50% of the cost of health care for some of its workers based on the single rate.

**Firm size:** must have less than 25 full-time workers.

**Average annual wage:** must pay annual wage below \$50,000.

## Amount of Credit

**Maximum Amount:** Up to 35% of business' premium cost.

**Phase-out:** The credit phases in gradually for firms with average wages between \$25,000 and \$50,000 and for firms with the equivalent of between 10 and 25 full-time workers.

## Claiming the Credit

Tax-exempt organizations will use new Form 8941 to calculate the credit. A draft form is currently available.

The final version of Form 8941 and its instructions will be available later this year.

## Additional Resources

### **IRS**

<http://www.irs.gov/newsroom/article/0,,id=223666,00.html>

### **YouTube**

<http://www.youtube.com/watch?v=85i1kzIG57k>



## **Timeline of Changes**



## Lifetime Dollar Limits on Plan Benefits

Effective Date: first plan year on or after Sept. 23, 2010

Group plans may not place lifetime limits on essential health benefits.

Note: In Michigan this has been the general practice for some time. Blue Cross Blue Shield did have a lifetime max in place, but it was quite high and thus most BCBS customers would not have reached it anyway.

## No Pre-X for those under age 19

Effective Date: first plan year on or after Sept. 23, 2010

Group plans may not impose a pre-existing condition exclusion with respect to children under age 19, with pre-existing condition exclusions eliminated for all participants by 2014.

This was already the practice in Michigan.

## Adult Child Coverage

Effective Date: first plan year on or after Sept. 23, 2010

All group health plans must extend eligibility to married or unmarried children of the covered employee until the child turns 26 as long as the child is not eligible for coverage under another employer-sponsored group benefit plan.

## W-2 Reporting

Effective Date: 2011 tax year

The value of the employee's health coverage must be disclosed on their W-2 forms.

This does not mean you will pay taxes on this coverage, as currently this is not in the legislation. However, by tracking this information on W2's it would make it easier for this practice to be implemented later if new laws were passed allowing it.

## Medicare Payroll Tax Increase

Effective Date: 2013

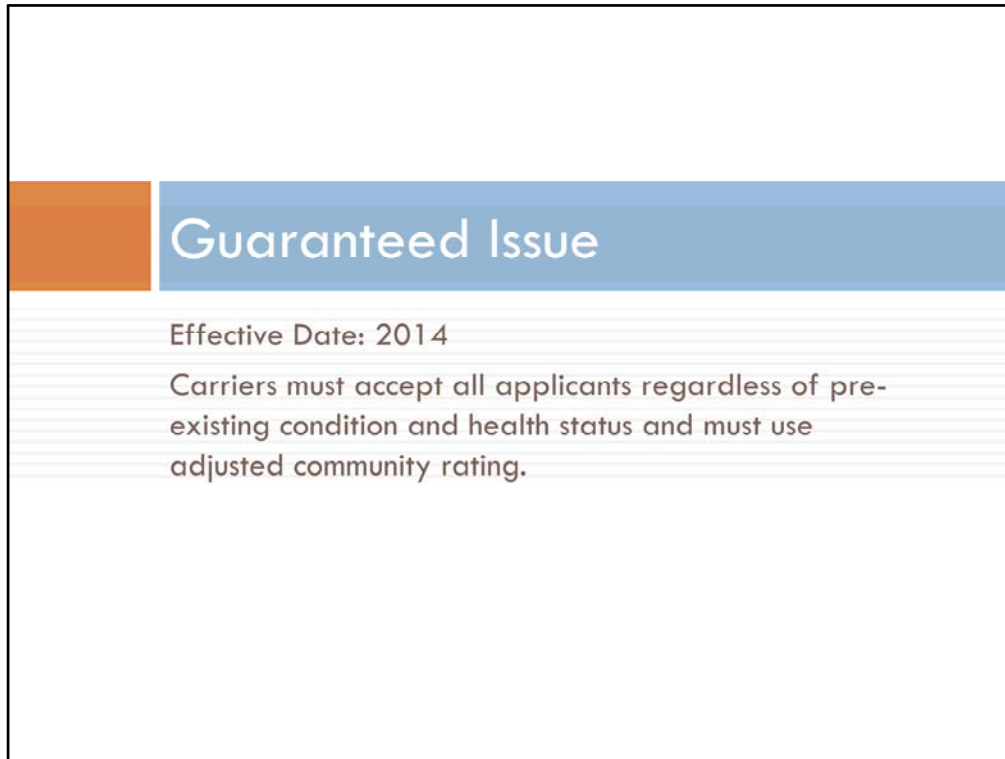
Employees pay 2.35% instead of the current rate of 1.45% on earnings greater than \$200,000 for individuals and \$250,000 for married couples filing jointly. The increase does not apply to the “employer share” of the Medicare payroll tax.

## Individual Mandate

Effective Date: 2014

U.S. citizens and legal residents are required to have “minimum essential benefits”. The tax penalty for noncompliance is \$695 per year, up to a maximum of \$2,085 per family.

The industry opinion is that this penalty amount might need to be increased in the future if it is to have the intended effect. Currently the fear is that it would be cheaper for individuals to just pay the penalty rather than pay for health insurance coverage in some instances.



## Guaranteed Issue

Effective Date: 2014

Carriers must accept all applicants regardless of pre-existing condition and health status and must use adjusted community rating.

This is already available in Michigan so this piece of the legislation will not have a big impact in this state.

**Guaranteed Renewal**

Effective Date: 2014

Carriers must guarantee renewal for individuals.

This is already available in Michigan so this piece of the legislation will not have a big impact in this state.

## Health Insurance Exchanges

Effective Date: 2014

Individuals and small employers with an average of 100 or fewer employees in the previous calendar year may purchase insurance from state-run exchanges. If the state agrees, large employers may also purchase from the exchange beginning in 2017. All carriers doing business in Michigan will participate by offering products on the exchange.

Five tiers of coverage will be offered, Catastrophic, Bronze, Silver, Gold and Platinum.

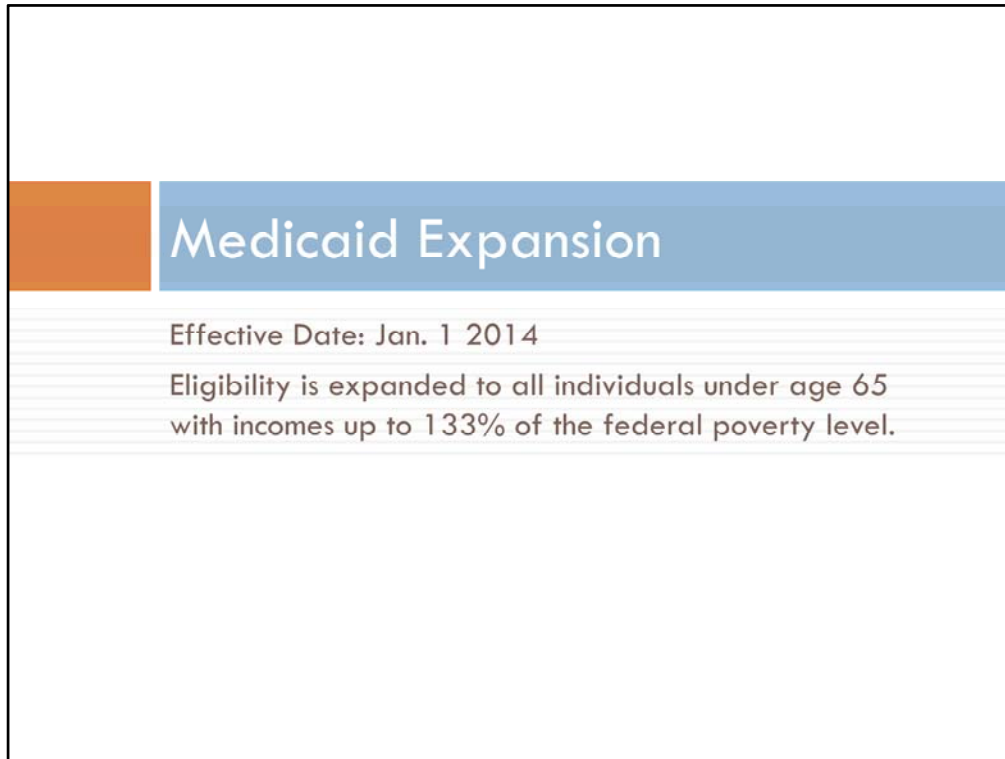
The coverage in each of these tiers must be relatively standard in exchanges nation wide (so Silver coverage offered in Michigan will be very much like Silver coverage offered in other states).

## Government Subsidies for Individuals

Effective Date: 2014

A government subsidy is available to U.S. citizens and legal immigrants with incomes of up to 400% of the federal poverty level to purchase coverage through an insurance exchange. This is not available if coverage is available from an employer plan that meets benefit and funding requirements.

In 2009, in the United States of America, the poverty threshold for a single person under 65 was US\$11,161; the threshold for a family group of four, including two children, was US\$21,756.



The graphic features a white background with a thin black border. At the top, there is a horizontal bar with an orange square on the left and a blue rectangle on the right. The text "Medicaid Expansion" is written in white on the blue background. Below this bar, the text "Effective Date: Jan. 1 2014" is centered. Underneath, another line of text states "Eligibility is expanded to all individuals under age 65 with incomes up to 133% of the federal poverty level." The bottom portion of the graphic is a large white empty space.

## Medicaid Expansion

Effective Date: Jan. 1 2014

Eligibility is expanded to all individuals under age 65 with incomes up to 133% of the federal poverty level.

In 2009, in the United States of America, the poverty threshold for a single person under 65 was US\$11,161; the threshold for a family group of four, including two children, was US\$21,756.

## Play or Pay

Effective Date: Jan. 1, 2014

Employers with an average of at least 50 employees are required to offer “minimal essential benefits” packages to full-time employees.

Employers that do not offer coverage or that offer coverage that does not qualify must pay an “assessment” of \$2,000 times the number of full-time employees if at least one full-time employee receives government-subsidized coverage through an exchange.

Some fear employers will elect to just pay the fine per employee and direct employees to the state run health exchanges to get coverage (and / or perhaps provide them some level of benefit with which to purchase insurance from these exchanges). Based on this concern federal agencies are working to make sure this does not happen. Whether this will be an issue, and if it is, how it will be addressed by the government are unclear at this time.

## Cadillac Plan Tax

Effective Date: Jan. 1, 2018

A 40% excise tax is imposed to the extent that the aggregate annual value of an employee's health coverage exceeds \$10,200 for an individual or \$27,500 for a family.

Threshold values are indexed to changes in the CPI.

It is important to note that not that many Americans have these "Cadillac Plans" as the benefits they offer are incredibly expensive. Even those with excellent insurance rarely fall into this category.

CPI – Consumer Price Index measures changes through time in the price level of [consumer goods](#) and [services](#) purchased by households. The CPI is defined by the United States [Bureau of Labor Statistics](#) as "a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services."

## Questions?

**Michael Harp, MA**

Papazian Smalley & Harp

Email: [mike@pshbenefits.com](mailto:mike@pshbenefits.com)

Voice: (517) 853-3100 x302

**Bill Gesaman**

Michigan Nonprofit Association

Email: [bgesaman@mnaonline.org](mailto:bgesaman@mnaonline.org)

Voice: (517) 492-2416

Presentation developed and presented by Michael Harp.