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Summary of President Obama's Proposal to Reform Health Care

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President Obama released his proposal to reform health care in anticipation of the public forum scheduled for February 25. In this proposal he continues to advocate for comprehensive reform that builds on the public and private insurance that exists. He offers a compromise on some of the key issues that have divided Democrats in the House and Senate. This paper summarizes some of the key provisions in President Obama's proposal, and compares them to the proposals approved by the House and Senate.

Improves affordability and accountability

All three proposals offer financial assistance (tax credits) to assure that premiums are affordable for low and middle income Americans. The President's proposal offers a middle ground between the House and Senate proposals for lowest income families, and lowers premium costs for families with incomes between 300 and 400 percent of the Federal Poverty Level (FPL), which is \$22,000 for a family of four (rounded to the nearest thousand).

Maximum percent of income paid for health insurance premiums (for a family of 4)					
	<i>from</i>	<i>to</i>	<i>House</i>	<i>Senate</i>	<i>President</i>
100-133% of FPL	\$22,000	\$29,000	1.5%	2.0%	2.0-3.0%
134-150% of FPL	29,000	33,000	1.5-3.0%	4.0-4.6%	3.0-4.0%
151-200% of FPL	33,000	44,000	3.0-5.5%	4.6-6.3%	4.0-6.3%
201-250% of FPL	44,000	55,000	5.5-8.0%	6.3-8.1%	6.3-8.1%
251-300% of FPL	55,000	66,000	8.0-10.0%	8.1-9.8%	8.1-9.5%
301-350% of FPL	66,000	77,000	10.0-11.0%	9.8%	9.5%
315-400% of FPL	77,000	88,000	11.0-12.0%	9.8%	9.5%

The President's proposal also finds middle ground in reducing cost sharing for families with incomes up to 250 percent of the FPL.

Percent of costs paid for by health insurance plans (for a family of 4)					
	<i>from</i>	<i>to</i>	<i>House</i>	<i>Senate</i>	<i>President</i>
134-150% of FPL	29,000	33,000	97%	90%	94%
151-200% of FPL	33,000	44,000	93%	80%	85%
201-250% of FPL	44,000	55,000	85%	70%	73%
251-300% of FPL	55,000	66,000	78%	70%	70%
301-350% of FPL	66,000	77,000	72%	70%	70%
315-400% of FPL	77,000	88,000	70%	70%	70%

Closing the “donut hole” in Medicare. (Medicare stops paying for prescription drugs when seniors’ out of pocket spending reaches \$2,830. Seniors pay the full cost until they spend \$4,550. Then Medicare begins payment again.)		
<i>House</i>	<i>Senate</i>	<i>President</i>
Phases out the donut hole in 10 years. Raises the amount at which the donut hole begins by \$500 in 2010.	Pays 50 percent discount on some drugs in the donut hole. Raises the amount at which the donut hole begins by \$500 in 2010.	Provides a \$250 rebate to seniors who hit the donut hole in 2010. Closes the donut hole completely by 2020 by phasing down co-insurance costs.

President Obama’s plan also gives the Federal Trade Commission the authority to address “pay-for-delay” schemes in which a brand-name pharmaceutical company pays a generic company to keep the generic brand off the market for a specified period of time. Generic drugs cost less than brand name pharmaceuticals. Keeping the generic drug off the market provides profit to the brand-name pharmaceutical company, and costs consumers more.

Reforms the insurance market

The President’s proposal strengthens the House and Senate plans to assure that insurance is fair, accessible and affordable for all people, regardless of pre-existing conditions. It sets up a new Health Insurance Rate Authority to provide oversight at the federal level and help states determine how to review insurance rates and monitor insurance market behaviors.

It also adds consumer protections for those who choose to keep the insurance they have (a “grandfather” provision.) It will require plans to cover adults dependents up to age 26, prohibits insurance companies from cancelling policies when a person gets sick (rescissions), mandates a stronger appeals process, and requires annual insurance rate reviews. When the Exchange begins in 2014 it adds protections that prohibit annual and lifetime benefit limits, bans pre-existing conditions exclusions, and prohibits discrimination in favor of highly paid individuals. Beginning in 2018, grandfathered plans have to offer preventive services with no cost sharing.

Increases shared responsibility

Improves fairness of federal funding for states

The President’s proposal sets Medicaid eligibility for all individuals under age 65 at 133 percent of the Federal Poverty Level. The House set it at 150 percent and the Senate at 150 percent of FPL. States administer the Medicaid program and currently set eligibility levels. Missouri only allows adults who are parents or caretakers of children to be eligible up to about 20 percent of the FPL. Under President Obama’s proposal

- All states will receive 100 percent federal funding for newly eligible individuals from 2014-2017
- All states will receive 95 percent federal funding from 2018-2019
- All states will receive 90 percent funding from 2020 and thereafter
- States that have already tried to serve the uninsured through Medicaid will have an increased matching rate for some services beginning in 2014. Unless they are compensated in this way, they will be inadvertently affected by getting less federal support than states like Missouri that have very low eligibility levels

Improve responsibility of large employers

The President's proposal does not require large employers (more than 50 employees) to offer health insurance (similar to the Senate plan). It does require them to pay part of the cost if taxpayers have to pick up part of the cost for insurance for their workers.

Employers that do not offer coverage do have to pay a fine per employee. President Obama's proposal softens the transition to employer responsibility by allowing large employers that do not provide insurance to subtract the first 30 workers when their payment is calculated. (For example, if an employer has 51 employees, the required payment would be based on the applicable amount multiplied times 21 (51-30), rather than times 50.

The Obama proposal reduces the applicable amount/employee that businesses that do not offer insurance must pay to \$2000.

It does not require payment if the employer requires a waiting period before insurance coverage begins, but it limits the waiting period to 90 days beginning in 2014.

Responsibility for small businesses

Small businesses (less than 50 employees) are exempt from penalties for not providing insurance. Under the President's proposal, small businesses will receive tax credits to help them provide coverage for their employees.

These provisions are similar to the House and Senate plans.

Improves individual responsibility

To lower insurance costs for everyone, the pool of insured individuals must include those who are healthy as well as people who are sick. People cannot be allowed to only purchase insurance when they get sick.

If an individual chooses not to purchase affordable insurance, he/she must pay \$495 in 2015. (This amount is lower than that in the Senate proposal.) It increases incrementally until it reaches \$695 in 2016 and thereafter. **Or an alternative** is for the person to pay a percent of their income, beginning at 0.5 to 1.0 percent of income in 2014 to 2.0-2.5 percent in 2016 and thereafter.

Individuals with incomes below the tax filing threshold will not have to pay an assessment. There are also hardship exemptions. Some examples of those who would qualify for a hardship exemption are those who object for religious reasons, those who are incarcerated, or are uninsured for less than 3 months.

Improves policies to contain cost and insure future sustainability

Medicare Advantage plans

Improves cost containment in the Medicare Advantage program without disrupting services for beneficiaries. The President's plan compromises the House and Senate bills by establishing benchmark payments, and gradually phasing these in.

The plan will reward quality and consumer satisfaction. It will track billing for care that raises payments more rapidly than evidence of enrollees' health would indicate.

Excise taxes on high-cost health care plans

To provide an incentive for insurance plans to lower their premiums, the Senate bill includes a tax on insurance companies that offer very high cost plans.

The Presidents' plan changes the start date from 2013 to 2018 to allow a transition time for high cost plans to become more efficient.

It also raises the cost of plans that are exempt from a tax assessment to \$10,200 (from \$8,500) for individuals and to \$27,500 (from \$23,000) for family plans.

To assure fairness, adjustments will be made for firms whose health costs are higher due to the age or gender of their workers.

Broadens the tax base for Medicare Hospital Insurance

President Obama adds a 2.9 percent assessment (the combined employer/employee tax rate) to unearned income, e.g. income from interest, dividends, annuities, royalties, rents etc. on taxpayers with incomes greater than \$200,000/\$250,000 for singles/married couples

Increase fees on brand-name pharmaceuticals

Close tax loopholes

The President's plan adopts the House proposal to eliminate tax credits on liquid byproducts derived from producing paper/pulp. These were intended to be a tax credit for production of renewable fuels.

The proposal also raises penalties for unjustified tax shelters.

Delays fees on health insurance providers until 2014

Delays fees on medical device manufacturers and converts it to an excise tax (to facilitate collection by the IRS)

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