

UNDERSTANDING THE NEW WORLD OF HEALTH INSURANCE

12.9.2015 | NAPFA DC STUDY GROUP

MICHAEL E. KITCES

MSFS, MTAX, CFP®, CLU, ChFC, RHU, REBC, CASL

Partner. Director of Research, Pinnacle Advisory Group

Publisher. The Kitces Report, www.kitces.com

Blogger. Nerd's Eye View, www.kitces.com/blog

Twitterer. @MichaelKitces, www.twitter.com/MichaelKitces



Handouts/Additional Materials at: kitces.com/NAPFADC15

UNDERSTANDING THE GOALS OF THE AFFORDABLE CARE ACT

© 2013 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

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

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

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

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

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

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

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

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

ESSENTIAL HEALTH BENEFITS

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

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

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

HEALTH INSURANCE EXCHANGES

© 2013 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

HEALTH INSURANCE EXCHANGES

- Annual open enrollment – Oct 15 thru Dec 7(?)
 - Expanded open enrollment period for 2013 launch
 - Open enrollment extended again in 2014
 - Thru Feb 15 2015
 - Exchanges may be run by states or Federal government
- Policies on exchanges from private insurers
 - Participation is voluntary, but market potential is big

© 2013 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

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

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

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)

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

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

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

COST OF (NEW) HEALTH INSURANCE

- Individuals
 - Coverage generally coming in similar to small group pricing
 - Basic bronze plans starting ~\$200-\$300/mo for 40-year-olds?



© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

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

© 2013 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

PREMIUM ASSISTANCE TAX CREDITS

© 2013 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

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

© 2015 Michael Kitces | kitces.com

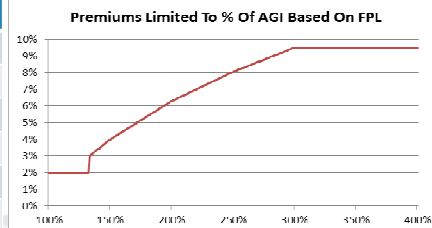
Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

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



© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

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/yr
 - Bill pays \$144.42/mo (\$1,733/yr) for his coverage

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

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...

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

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	Married Couple Income	Max Prem % of Income	Family Size				
			1	2	3	4	5
100%	\$15,510	2%	\$229.80	\$310.20	\$390.60	\$471.00	\$551.40
132.9%	\$20,627	2%	\$305.40	\$412.26	\$519.11	\$625.96	\$732.81
133.0%	\$20,628	3%	\$458.45	\$618.85	\$779.25	\$939.65	\$1,100.04
150%	\$23,265	4%	\$689.40	\$930.60	\$1,171.80	\$1,413.00	\$1,654.20
200%	\$31,020	6.3%	\$1,447.74	\$1,954.26	\$2,460.78	\$2,967.30	\$3,473.82
250%	\$38,775	8.05%	\$2,312.36	\$3,121.39	\$3,930.41	\$4,739.44	\$5,548.46
300%	\$46,530	9.5%	\$3,274.65	\$4,420.35	\$5,566.05	\$6,711.75	\$7,857.45
350%	\$54,285	9.5%	\$3,820.43	\$5,157.08	\$6,493.73	\$7,830.38	\$9,167.03
400%	\$62,040	9.5%	\$4,366.20	\$5,893.80	\$7,421.40	\$8,949.00	\$10,476.60

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

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

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

PREMIUM ASSISTANCE TAX CREDITS

- 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

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

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

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

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%!

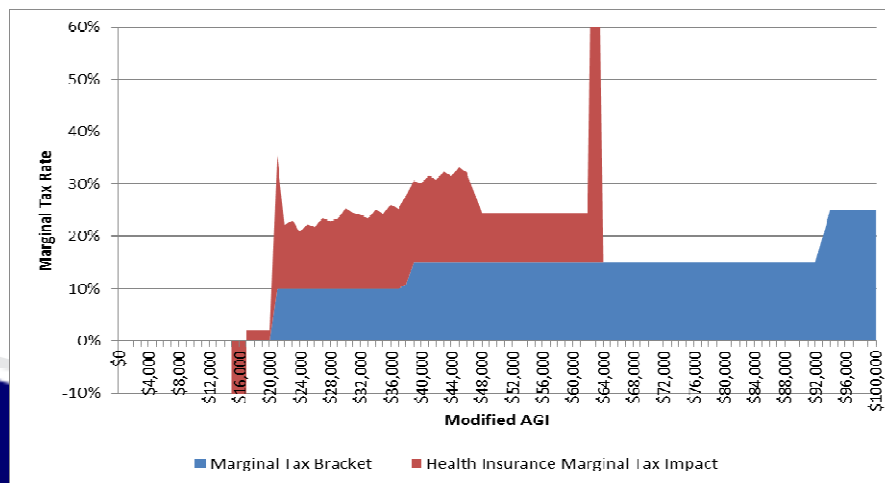
© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

[@michaelkitces](https://twitter.com/michaelkitces)

PREMIUM ASSISTANCE TAX CREDITS

- Marginal tax bracket + premium tax credit phaseout



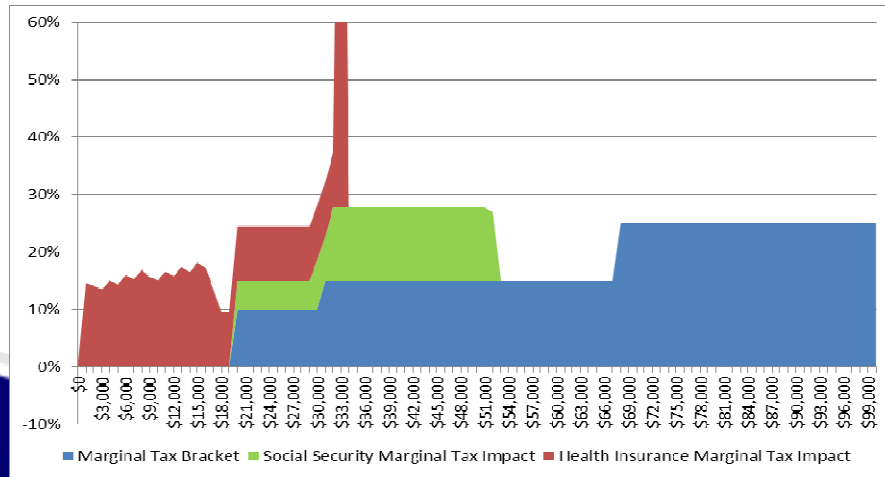
© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

[@michaelkitces](https://twitter.com/michaelkitces)

PREMIUM ASSISTANCE TAX CREDITS

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



© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

[@michaelkitces](https://twitter.com/michaelkitces)

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)

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

[@michaelkitces](https://twitter.com/michaelkitces)

PREMIUM ASSISTANCE TAX CREDITS

- 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!

OVERALL PLANNING IMPLICATIONS/ISSUES

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?

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

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”!

© 2015 Michael Kitces | kitces.com

Handouts/Materials: kitces.com/NAPFADC15

 @michaelkitces

QUESTIONS?

Handouts & additional materials:
www.kitces.com/#

Contact: michael@kitces.com