

## Conclusion

Many observers see the Act as the most sweeping domestic policy legislation passed since the inception of the Medicare program in 1965. Employers, insurers and healthcare providers will need to undertake major initiatives to comply with the new coverage and payment rules. In addition, they must decide not only how to manage these compliance costs, but also the new fees and taxes imposed upon them to fund the Act's reforms.

At Summa Health System, we offer our pledge to you to continue to strive for the highest quality, valuable care.

**For our patients...** We will continue to provide our patients with high quality, coordinated and convenient care close to home. Our patients' families and caregivers will be involved in each individual's care plan and benefit from an integrated delivery system and the latest technologies.

**For our communities...** We will improve the health status of our communities, reduce disparities and provide stable and predictable costs of our services.

**For our employees and physicians...** Our employees and physicians will be valued and supported as leaders in advancing clinical care delivery and research. Summa Health System will provide easy, convenient access to information so our staff can continue to deliver world-class patient care.

**For employers...** Summa Health System will partner with employers to meet their changing healthcare needs. Through stable, predictable healthcare costs and corporate health services, we will help businesses achieve a healthier, more productive workforce.

## For More Information

If you have any questions regarding the Patient Protection and Affordable Care Act please contact our Government Relations Office at 330-375-6243.



# Healthcare Reform Facts



## The Facts About Healthcare Reform

The *Patient Protection and Affordable Care Act* was signed into law March 23, 2010. With this sweeping healthcare reform legislation, the US is undertaking a major overhaul of the healthcare system that will affect everyone — from insurance companies and healthcare providers to individuals and employers. We all must prepare for the substantial changes in the way healthcare is obtained, delivered, paid for and regulated.

The healthcare system of tomorrow is one that rewards healthcare providers for keeping patients out of the hospital. At Summa Health System, an Akron, Ohio-based integrated delivery system encompassing a network of hospitals, community health centers, a health plan, a physician-hospital organization, a multi-specialty physician organization, research and multiple foundations, we are ready for the future of healthcare.

This summary outlines the key elements of the Patient Protection and Affordable HealthCare Act (the Act), how the federal government will pay for the increased healthcare spending, and a timeline for when major provisions will take effect.

What does the legislation do?

The primary goals of the Act are to: (i) expand coverage to an estimated 32 million Americans without health insurance; (ii) reform the delivery system to improve quality; and (iii) lower the overall costs of providing healthcare.

To accomplish the goal of expanding coverage, the legislation mandates that all Americans maintain a minimum level of health coverage. It expands Medicaid coverage and provides federal subsidies to assist low-income individuals in obtaining health insurance. The legislation also implements insurance market reforms, including a ban on exclusions for preexisting conditions, premium rate restrictions, extension of dependent coverage through age 26, and mandatory coverage of preventive services.

The Act establishes insurance exchanges through which individuals and small employers can shop for health insurance. It also mandates, for the first time, that employers with 50 or more full-time employees provide certain minimum benefits or pay penalty fees. Employers will need to analyze the cost implications of proposed changes to their benefit plans, payroll taxes, administrative functions and other compliance obligations.

Healthcare cost reductions stem from cuts to Medicare and Medicaid payments, provisions to reduce fraud, waste, and abuse in those public programs, and other delivery reforms. These reforms present both challenges and opportunities for healthcare industry sectors as they analyze the impact of increased patient volume, reimbursement cuts, changes in relationships between hospitals and other providers, and modifications to their administrative operations and cost structures.

There still is a lot to be learned about how the bill will impact Summa Health System and the communities we serve, however, we are well positioned as an integrated delivery system to prosper in this new era of healthcare. We will continue to provide updates as more information becomes available.

## The Impact to Businesses

### Large Employers

- The mandate for large employers begins in 2014
- 50+ full-time equivalents
- Requires large employers that do not offer coverage to pay an annual fee of \$2000 per FTE if at least one receives a health insurance tax credit
- Large employers offering coverage that is “unaffordable” must pay an annual fee of \$3000 times the number of FTEs receiving tax credits
- Employers may subtract the first 30 workers in calculating penalties

### Small Employers

- In 2010, subsidies begin for small businesses (less than 25 employees) for employee coverage (up to 35 percent of premiums)
- 50 percent health insurance tax credit to small businesses with 10 or fewer employees and \$20,000 or less in average wages
- The credit, which is available on a rolling basis for the first two years that an employer offers coverage, fully phases out for firms equal to or greater than with average wages equal or greater to \$40,000
- Insurance exchanges through which individuals and small businesses can purchase insurance will begin at the state level in 2014
- Significant changes to reporting requirements for Form 1099-Misc beginning January 1, 2012
- Starting in 2011, employers must report the value of health benefits on employee W-2 Wage and Tax Statements
- It is not yet clear whether this includes the employee portion, employer portion, or both

KEY PROVISIONS OF HEALTHCARE LEGISLATION

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Coverage	
Provision	Description
<b>Medicare/Medicaid delivery system reforms</b>	Eliminates lifetime or unreasonable annual limits; prohibits rescissions; mandates coverage of preventive services; extends dependent coverage up to age 26; requires insurers to meet certain medical loss ratios; establishes a temporary high-risk pool for those with pre-existing conditions; and provides reinsurance for retirees.
<b>Insurance market reforms</b>	Limits insurers' flexibility to vary premiums; requires guaranteed availability and renewability of policies; prohibits exclusions based on preexisting conditions; and prohibits discrimination based on health status.
<b>Minimum benefit standards</b>	Establishes new benefit requirements and requires plans to pay a minimum of 60% of coverage costs. Permits high-deductible catastrophic plans for adults under age 30 who are exempt from the individual mandate due to hardship or unaffordability.
<b>Grandfather rules</b>	Grandfathers existing employer plans from insurance market reforms except for dependent coverage, wait periods, lifetime limits, rescissions, uniform explanation of coverage documents and medical loss ratio requirements.
<b>Insurance exchange</b>	Creates state-based exchanges through which individuals and small businesses can purchase insurance. Establishes multi-state plans with rates and benefits negotiated by the Office of Personnel Management. Does not include a public insurance option.
<b>Individual mandate</b>	Requires individuals to maintain minimum coverage beginning in 2014. Imposes a penalty that increases over time for failure to maintain coverage. Certain exceptions are available for those with hardships, religious objections, non-US citizens or incarcerated individuals.
<b>Individual subsidies</b>	Provides tax credits and cost sharing reductions cost-on a sliding scale for individuals between 133% and 400% of the federal poverty level toward the cost of coverage.
<b>Employer mandate</b>	Requires large employers (50+ full-time equivalents) that do not offer coverage to pay an annual fee of \$2,000 per full-time employee (FTE) if at least one FTE receives a health insurance tax credit. Requires large employers offering coverage that is "unaffordable" to pay an annual fee of \$3,000 times the number of FTEs receiving tax credits (with a maximum amount not to exceed \$750 times the total number of all FTEs). Prohibits waiting periods over 90 days.  Employers may subtract the first 30 workers in calculating penalties.
<b>Medicaid expansion</b>	Extends Medicaid to individuals at or below 133% of the federal poverty level. Increases federal matching payments to states to compensate for states' Medicaid costs for newly eligible individuals to 100% from 2014–2016, phasing down to 90% in 2020 and beyond. Increases Medicaid payments to primary care physicians.

**Medicare/Medicaid Delivery System Reforms**

Provision	Description
<b>Market basket updates</b>	Implements productivity adjustments and market basket reforms that will reduce payments for hospitals, home healthcare, skilled nursing facilities and other Medicare providers.
<b>Hospital readmissions</b>	Reduces payments to hospitals that have readmission rates above certain thresholds for patients re-hospitalized with preventable conditions.
<b>Payment reforms</b>	Authorizes programs to test coordinated care payment models (e.g., bundled payments across an episode of care, medical homes and accountable care organizations).

**Medicare/Medicaid Delivery System Reforms** (continued)

Provision	Description
<b>Medicare advantage</b>	Freezes Medicare Advantage payments in 2011. Phases in reductions in federal subsidies paid to private health plans to equal local Medicare payment rates. Requires plans to meet an 85% medical loss ratio.
<b>Part D coverage gap</b>	Requires drug manufacturers to provide a 50% discount to Part D beneficiaries for brand-name drugs and biologics purchased during the coverage gap ("donut hole"). Provides a \$250 rebate for enrollees who hit the donut hole in 2010. Eliminates the donut hole by 2020.
<b>Medicare commission</b>	Establishes an independent payment advisory board to make binding recommendations to Congress for extending the solvency of Medicare.
<b>DSH payments</b>	Reduces Medicare and Medicaid payments to hospitals that serve a disproportionate share of uninsured patients, based on the reduction in the number of uninsured.
<b>Medicaid drug rebates</b>	Increases rebates paid by prescription drug manufacturers for certain drugs prescribed to Medicaid beneficiaries. Extends rebates to drugs purchased by Medicaid managed care plans.

**Biologics and Comparative Effectiveness**

Provision	Description
<b>Biosimilar drugs</b>	Establishes an approval pathway at FDA for biosimilars (i.e., generic versions of biologic drugs); provides a 12-year period of exclusivity for the licensed biologic product.
<b>Comparative effectiveness</b>	Establishes a private, nonprofit entity to conduct research on the comparative effectiveness of diagnostics, pharmaceuticals, devices and other medical treatments.

**Tax Provisions**

Provision	Description
<b>Excise tax on high-cost health plans</b>	Imposes a 40% excise tax on employer health coverage valued over \$10,200 for individuals, \$27,500 for families (with certain limited exceptions), effective January 1, 2018.
<b>Medicare hospital insurance (HI) tax on high-income taxpayers</b>	Increases the Medicare HI payroll tax by 0.9% on wages of \$200,000 or more for individuals or \$250,000 for couples. Imposes a 3.8% tax on the lesser of net investment income (e.g., income from interest, dividends, capital gains) or the excess of the taxpayer's modified AGI over \$200,000 for individuals or \$250,000 for couples.
<b>Health insurers fee</b>	Imposes a non-deductible annual fee on health insurers, allocated based on market share, designed to raise \$60 billion from 2014–2019. Provides certain exemptions for tax-exempt and nonprofit insurers.
<b>Drug manufacturers fee</b>	Imposes a non-deductible annual fee on drug manufacturers, allocated based on market share, designed to raise \$27 billion from 2011–2019. Excludes those with sales of \$5 million or less.

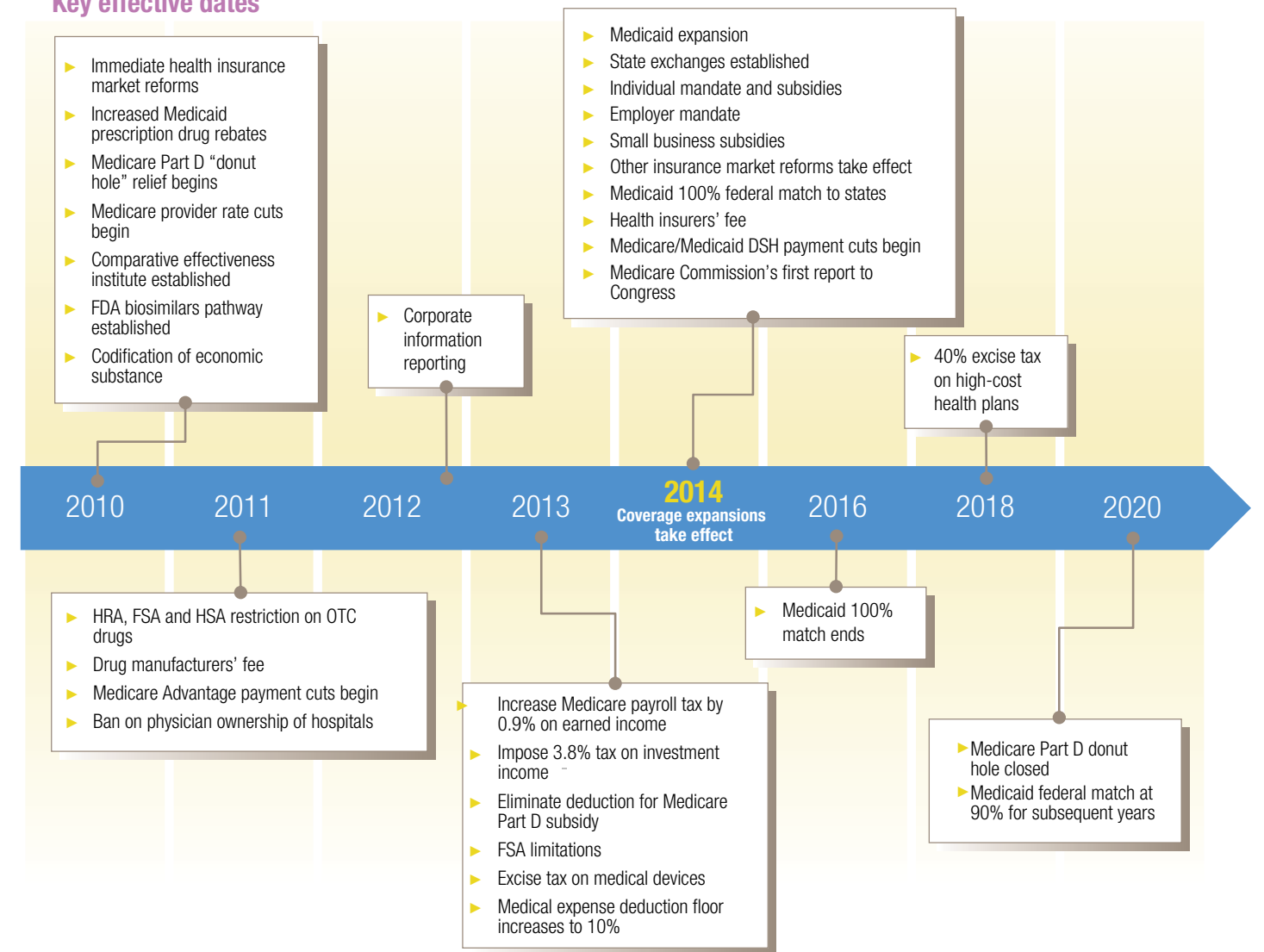
KEY PROVISIONS OF HEALTHCARE LEGISLATION

Tax Provisions (continued)	
Provision	Description
<b>Drug manufacturers fee</b>	Imposes a non-deductible annual fee on drug manufacturers, allocated based on market share, designed to raise \$27 billion from 2011–2019. Excludes those with sales of \$5 million or less.
<b>Medical device manufacturers excise tax</b>	Imposes a 2.3% excise tax on the first sale of medical devices, designed to raise \$20 billion from 2013–2019. Excludes glasses, contacts, hearing aids and similar products.
<b>Economic substance</b>	Codifies the doctrine and imposes strict liability penalties on transactions lacking economic substance.
<b>Charitable hospitals</b>	Imposes additional requirements on charitable hospital organizations to retain charitable status.
<b>Executive compensation</b>	Places a \$500,000 cap on health insurers' deduction for compensation paid to officers, directors and certain employees.
<b>Part D deduction</b>	Eliminates the employer deduction for Medicare Part D retiree drug subsidy, beginning in 2013.
<b>FSA, HSA, HRA changes</b>	Provides that the cost of over-the-counter medicines (other than prescribed drugs and insulin) may not be reimbursed through a health FSA, HSA, or HRA. Increases penalties for non-qualified distributions from HSAs and Archer MSAs to 20%. Limits individual contributions to FSAs in cafeteria plans to \$2,500 annually.
<b>Information reporting</b>	Requires businesses to file information returns for all payments aggregating \$600 or more in a calendar year to a single payee, including corporations (other than a payee that is a tax-exempt corporation).
<b>Medical expenses</b>	Increases the floor on the medical expense deduction for individuals from 7.5% to 10% of AGI.
<b>Black liquor</b>	Eliminates the cellulosic biofuels tax credit for unprocessed biofuels, such as black liquor.
<b>Modification of IRC section 833</b>	Requires eligible insurers to meet a medical loss ratio of 85% or higher to continue receiving the tax benefits of IRC section 833.
<b>Indoor tanning tax</b>	Imposes a 10% excise tax on indoor tanning services.

When do these changes take place?

While the coverage expansions and tax subsidies do not go into effect until 2014, a number of reforms take effect immediately or over the next several years. Full implementation of the Act will run through 2020. Federal agencies will be required to develop extensive regulatory guidance to flesh out the details of the numerous new programs created by the Act. The following timeline illustrates when major provisions will take effect.

Key effective dates



How is the money spent and where does it come from?

The bulk of the Act’s almost \$950 billion price tag comes from: (i) providing federal tax subsidies to help individuals and small businesses pay for health insurance coverage; and (ii) expanding Medicaid to cover individuals with incomes up to 133% of the federal poverty level. A mix of tax increases and Medicare spending cuts provide the funding for these coverage expansions. Notable tax increases include an excise tax on high-cost health plans; a new Medicare payroll tax for individuals with annual income over \$200,000 (\$250,000 for couples); and annual taxes on health insurers, drug manufacturers and sales of medical devices.

Snapshot of major spending and revenue components (2010–2019)

Spending increases	(billions)	Medicare cuts/tax increases	(billions)
Individual subsidies, exchanges and related spending	\$464	Medicare cuts	\$455
Medicaid and children’s coverage expansion	\$434	Increased Medicare HI taxes	\$210
Medicaid and children’s coverage expansion	\$40	Taxes on insurers, drug manufacturers and medical device sales	\$107
		Employers (penalties, high-cost plans, Part D deduction)	\$89
		Other tax increases	\$103
<b>Total</b>	<b>\$938</b>	<b>Total</b>	<b>\$964</b>