



October 1, 2013

ObamaCare is Coming: Are You Ready?

On March 9, 2010, then-House Speaker Nancy Pelosi famously said, “We have to pass the (health care) bill so you can find out what is in it.” Two weeks later, the Patient Protection and Affordable Care Act (ACA), or more commonly referred to as ObamaCare, was passed and signed into law.

Fast forward three and a half years, the sweeping healthcare reform is on the brink of becoming reality. How prepared and informed are we, as the end users (beneficiaries), of the new healthcare system in order to make the most out of it?

In this newsletter, I will try to cut through the noise to get to the core of the new health insurance system so that you can be armed to make an educated decision.

The Basics

The goal of ObamaCare is simple: every single American should have health insurance coverage. In the past, people could not or did not get coverage because they voluntarily chose so, they were denied due to pre-existing conditions, or they simply could not afford it.

ObamaCare has two parts (or exchanges or marketplaces): One for *Individuals & Families* and the other one for *Small Businesses* (also known as SHOP, acronym for the Small Business Health Options Program). For this discussion, we will focus on the *Individuals & Families* exchange.

To be eligible, there are three requirements: 1) you must live in the U.S.; 2) you be a U.S. citizen or national (or be lawfully present); and 3) you cannot be currently incarcerated¹.

If you are on, or soon to become eligible for, Medicare, ObamaCare does not apply to you because you are under a different system. Additionally, ObamaCare is not needed if you expect to continuously receive coverage through employment that meets the minimum requirements.

The available tax credits to help reduce the insurance cost are based upon income level and where it lands on the federal poverty level (FPL). If your household income falls between 100%

BY THE NUMBERS

\$0...Out-of-pocket expense on all preventive services.

8%... Cost of lowest-priced plan available compared to household income that qualifies for the penalty exemption.

19...Age of child under which CHIP is available.

30...Age of adult under which catastrophic coverage can be purchased.

138%...FPL level under which family can opt for expanded Medicaid.

400%...FPL level above which no subsidies will be given.

\$12,700...Maximum out-of-pocket expense for a family plan for 2014 (\$6,350 for an individual).

¹ <https://www.healthcare.gov/am-i-eligible-for-coverage-in-the-marketplace/>



and 400% of the FPL, then you can get help paying for the healthcare premiums according to the following sliding scale and the premium of your area's second-lowest-cost silver plan:

Federal Poverty Level	Premium Capped as % of Income
100%	2%
150%	4%
200%	6.3%
250%	8.05%
300%	9.5%
400%	9.5%

Source: U.S. Dept. of Health & Human Services

Kaiser Family Foundation publishes a short article on how the credits work²; you can refer to the link in the footnote for more details.

To put the numbers in local perspective, the following table shows how much healthcare premiums are expected to be in the Portland, Ore. and Seattle marketplaces:

Second-Lowest-Cost Silver Plan		Single Adult 25-Year-Old \$25,000 Income (218% FPL)	Family of Four Two 40-Year-Olds \$60,000 Income (255% FPL)	Couple Two 60-Year-Olds \$30,000 Income (193% FPL)
Monthly Premium	Portland	\$158	\$602	\$854
Before Tax Credit	Seattle	\$222	\$847	\$1,202
Monthly Premium	Portland	\$144	\$409	\$150
After Tax Credit	Seattle	\$144	\$409	\$150

Source: Kaiser Family Foundation³

For those whose income falls below 138% of the FPL, they can participate in the newly extended Medicaid program as well as CHIP (Medicaid for children under the age of 19). Both the states of Oregon and Washington offer them⁴.

The Exchanges and the Plans

One of the more intriguing (and confusing) pieces of the ObamaCare is the creation of state-run marketplaces, or exchanges, in which private insurers participate with their plans that must offer ten essential health benefits⁵. In a nutshell, these marketplaces intend to provide a single platform for consumers to compare and shop for coverage. If you are familiar with Medicare and the different types of supplemental and Advantage plans, the new healthcare exchanges may seem familiar.

² <http://kaiserfamilyfoundation.files.wordpress.com/2013/01/7962-02.pdf>

³ <http://kff.org/health-reform/issue-brief/an-early-look-at-premiums-and-insurer-participation-in-health-insurance-marketplaces-2014/>

⁴ <http://www.insurekidsnow.gov/>

⁵ <https://www.healthcare.gov/what-does-marketplace-health-insurance-cover/>



The other convoluted part lies within the actual healthcare plans, which are separated into four different categories: Bronze, Silver, Gold, and Platinum. The better the plan, the higher the cost coverage and lower out-of-pocket maximums, and hence the higher premiums.

	Platinum	Gold	Silver	Bronze
Healthcare Cost Coverage	90%	80%	70%	60%

As for youngsters under 30 who are in good health, ObamaCare has a provision called the “catastrophic” plan, which covers three primary care visits per year before meeting the deductible⁶. This can be a cost-effective option and a way to avoid the tax penalty.

The “Play or Pay” Tax

Perhaps the part of the new healthcare law that has been drawing the most controversy is the creation of the individual mandate and the penalty incurred if one chooses not to be covered. In June of 2012, Supreme Court ruled to uphold the law in its entirety but called the penalty a “tax” instead. (Interestingly, the government’s official healthcare website calls this a “fee” in lieu of a tax⁷.)

The concept is simple: get coverage (play) or skip coverage (pay the tax). The math is fairly straight-forward but the decision may not be as easy:

Year	Tax
2014	The higher of: 1% of annual income, or \$95 per adult, \$47.5 per child
2016	The higher of: 2.5% of annual income, or \$695 per person

The need to bring in your financial advisor and tax consultant is now more important than ever, especially for those making income between 200% and 250%⁸ of the FPL and looking to shop on the exchanges. Subsidies available for income levels under the 200% FPL threshold are much more generous⁹. In-depth tax planning, therefore, should include an analysis of plan options and their impact on your tax situation.

What Should You Do?

Many American workers are poised to lose health coverage through work as employers, both large and small, try to contain cost by reducing headcounts to below 50 (minimum size of a

⁶ <https://www.healthcare.gov/glossary/catastrophic-health-plan/>

⁷ <https://www.healthcare.gov/what-if-someone-doesnt-have-health-coverage-in-2014/>

⁸ http://coverageforall.org/wordpress/wp-content/uploads/2013/07/FHCE_FedPovertyLevel2013.pdf

⁹ Graham, J. Sept. 30, 2013. ObamaCare: Lying A Little On Income Yields Big Savings. *Investor’s Business Daily*, pp. A1.



company that must provide health insurance), dropping certain coverage¹⁰, or cutting worker hours to “part-time” status.

Nonetheless, ObamaCare is here to stay and will affect all of us in a certain way. There are a few critical steps we can take to arm ourselves with the knowledge and correct information in order to be a confident consumer.

Step 1: Know the facts, skip the fiction. There have been numerous new articles and reports about ObamaCare, some have good information; others do not. We need to be able to separate useful facts from garbage or flat-out bad information. Both the healthcare law’s official website (www.healthcare.gov) and your state’s exchange homepage do just that—providing facts. The Kaiser Family Foundation (kff.org/health-reform) has been conducting researches on various aspects of ObamaCare. Its Health Insurance Subsidy Calculator is of particular interest and value to those who are looking to sign up but are unsure how much subsidies they would be entitled to.

Step 2: Learn your vocabulary. Most of us are accustomed to having someone else pick out a health insurance plan for us, be it the employer or a broker. With ObamaCare, much of that responsibility is shifting to our plate. Just like any other insurance product, the new healthcare law is full of legal terms and industry jargon. You need not master all of them but knowing some key terms will no doubt make the research process much less cumbersome. Below are a few of the most important terms.

Copay/Copayment	Coinsurance	Cost Sharing	Deductible
Essential Health Benefits	Federal Poverty Level	Guaranteed Issue	In- vs. Out-of-Network
Out-of-Pocket Limit	Penalty	Premium	Tax Credit

Explanation of these terms can be found on <https://www.healthcare.gov/glossary/>

Step 3: Be familiar with your state’s program. Because each state is in charge of its own exchange under ObamaCare, providers and plans will vary, although all of them will have Bronze, Silver, Gold and Platinum-level plans available to choose from.

Step 4: Understand your healthcare habits and anticipate your health situation. One question to ask yourself: Am I a heavy healthcare user? The goal is to make a wise and informed choice so that the balance between premium and out-of-pocket expense is optimal. In other words, you do not want be overpaying and under-utilizing the services. For example, a 60-year-old couple with chronic illness would probably be better off with a silver plan while a healthy 25-year-old, fresh out of college, would be fine with the catastrophic option.

¹⁰ Nussbaum, A & Creduer, M. J. Aug. 22, 2013. UPS Ending Health Coverage for Spouses Signals Cost Cuts. Bloomberg. <http://www.bloomberg.com/news/2013-08-22/ups-ending-health-coverage-for-spouses-signals-cost-cuts.html>



Step 5: Shop early and do not do it alone. Chances are, if you procrastinate, you may pick the wrong plan or miss the open enrollment entirely, and be stuck with no coverage and the tax penalty. Also, involve your financial consultants and find a capable health-insurance broker. (If you do not have a trustworthy broker, your financial advisor should have someone who they know can help).

Is ObamaCare scary? Is it confusing? Is it a bad deal? After reading this article, hopefully your anxiety level is eased. Once the new law is in full motion, there will continue to be adjustments, revisions, and improvements. To borrow some wisdom from the investment world, when everyone else is writing an investment off, it's probably worth a closer look!

- Henry Yu, CFP®