



# **Nonprofits and the Affordable Care Act**

# An Overview of the Affordable Care Act

- Expand health insurance coverage
  - 16 million Americans qualify for Medicaid
  - 24 million Americans participate in the health exchanges
- Fundamental changes in the rules governing the insurance industry
- Cost containment, particularly in Medicare

# An Overview of the Affordable Care Act and Nonprofits

- Tax Credits
- Information on what percentage your insurance company spends on admin cost
- No employer responsibility for small employers
- Beginning in 2014 can purchase insurance through the health exchange
- New insurance rules effective in 2014
- 1099-MISC forms

# Tax Credits: Phase I

- Phase I now through 2013: Nonprofits with 2 to 10 employees and average salary of \$25,000 or less qualify for 25% tax credit of the employer's share of premiums (35% for for-profits).
- Phased out to employers with 25 or fewer employees and higher salaries (\$50,000).

# Tax Credits: Phase II

- Phase II is 2014 and beyond. Same structure (2 to 10 employees with average salary less than \$25,000 get maximum, and phased out to larger employers with higher average salaries) but the maximum tax credit increases to 35% for nonprofits (50% for for-profits).
- Limited to two years only.

# Tax Credits Continued

- Employer must pay at least 50% of total premium.
- Nonprofits reduce the payroll taxes they pay in order to receive the tax credits.
- Tax credits (both for-profit and nonprofit) cost \$40 billion over ten years.

# Medical Loss Ratio

- An insurance company with an 80% medical loss ratio spends 80% of the premiums they collect on paying claims and quality improvement and 20% on administrative cost.

# Medical Loss Ratio

## 2010 and 2011 and Beyond

- At the end of this year, insurance companies must report their medical loss ratio.
- After 2011, insurance companies must meet minimum loss ratios (80% in small group and individual markets -- 85% in large group market) or provide customers a rebate to make-up the difference.



# Employer Responsibility

- Employers with 50 or fewer employees are exempt from the “free rider” provision.
- Free rider provision: Beginning in 2014, employers with 51+ employees that do not offer health insurance and at least one of their employees receive a tax credits in the exchange, will pay a penalty.

# Free Rider Penalty

- The penalty is \$2,000 per year per FTE employees with the first 30 employees excluded from this calculation.
- For example, an employer with 100 employees that doesn't offer coverage would pay \$140,000 a year penalty ( $100 - 30 = 70$  times \$2,000).
- 96% of employers with 50+ employees currently offer health insurance benefits.

# Health Exchanges

- Health exchanges are market places where individuals and small businesses can purchase health insurance.
- Beginning in 2014, state level exchanges are established under the ACA. Can be regional.
- Default is one exchange for small businesses, one for individuals. Can be combined.

# Health Exchanges: Eligibility

- Individuals who do not have access to employer sponsored health insurance are eligible. There are significant tax credits for moderate and middle income individuals in the exchange (\$466 billion over ten years.)
- Small businesses, those with between 1 and 100 employees, are eligible.

# Health Exchange Benefits

- Four levels of benefits will be offered in the exchange.
- All four levels must provide “essential services,” which include: Rx, preventive services, pediatric oral health and vision benefits.

# Health Exchange: Critical Issues

- Health exchanges have the potential to improve quality and contain cost. How effective they are depends on two critical questions:
  - What is the mission of the exchange?
  - Who governs the exchange?

# Insurance Reform in 2010

- When new plan years begin after September 23, 2010
  - End to pre-existing conditions for children
  - End to life time limits on benefits
  - Young adults can stay on their parent's policy
- For new plans only
  - Effective preventive measures must be covered with no cost sharing by the consumer

# Insurance Reform in 2014

- End to pre existing conditions for adults
- End to gender and medical underwriting
- Guarantee issuance and renewal

Basically ends insurance companies competing on price and being able to shift cost to competing on price and quality.



# 1099-MISC

## ■ Old Rules:

- If an unincorporated organizations provided a service to your organization that exceeded \$600 in a year, then your organization had to file a 1099-MISC form the with IRS.

## • New Rules:

- Your organization must file a 1099-MISC form for any corporation or unincorporated organization if you pay them more than \$600 in a year for services, goods or property.

# 1099-MISC

- Both Democrats and Republicans agree this provision should be fixed, but cannot agree how to fund the \$18 billion over ten years in revenues lost by the elimination of this provision.

# ACA and Nonprofits

- May receive tax credits
- Medical loss ratio information and possible rebates
- No employer responsibility for small employers
- Beginning in 2014, can participate in the exchange
- An end to medical and gender underwriting
- 1099-MISC

# Contact Information

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