AFFORDABLE HEALTH CARE FOR AMERICA

HEALTH INSURANCE REFORM AT A GLANCE

PAYING FOR HEALTH INSURANCE REFORM

The Senate health insurance reform bill as improved by reconciliation is fully paid for. Indeed, the nonpartisan Congressional Budget Office estimates that the bill <u>will reduce the deficit by $143 billion over the next 10 years</u> and <u>by $1.2 trillion in the following decade.</u> About half of the cost of the bill is paid for by targeting waste, fraud, and inefficiency in Medicare and Medicaid. Roughly the other half of the cost is paid for through asking the wealthiest 2 percent of Americans to make a contribution, imposing fees on certain health care industries that will benefit from 32 million more insured Americans, and certain other revenue raisers.

TARGETING WASTE, FRAUD, AND INEFFICIENCY IN MEDICARE & MEDICAID

- About half of the cost of the health reform bill is paid for by targeting waste, fraud and inefficiency in Medicare and Medicaid. Currently, billions of dollars are lost each year to waste and inefficiency in Medicare – driving up seniors' health care costs and threatening Medicare's long-term solvency. This bill strengthens and protects Medicare by eliminating waste and inefficiency without cutting any Medicare benefits – extending the solvency of Medicare by nine years or more and improving the quality of care.

- It is estimated that up to 20 percent of Medicare spending, as well as private health care spending, goes to waste, inefficiency, fraud, and unnecessary procedures. It is this spending that is targeted for elimination in the bill. The Medicare savings in this bill are simply a 5 percent reduction overall in what Medicare is expected to spend over the next 10 years.

- One key area where the bill targets wasteful spending is including a significant reduction in overpayments to private Medicare Advantage plans – saving taxpayers over $130 billion over the next 10 years. According to the nonpartisan Medicare Payment Advisory Commission, payments to private Medicare Advantage plans cost the government, on average, 14 percent more than traditional Medicare. These overpayments lead to increased Medicare Part B premiums for all Medicare beneficiaries, even for those in traditional Medicare. The bill's provisions reducing these overpayments strengthen Medicare for the future.

- The bill includes numerous provisions to crack down on waste, fraud and abuse in Medicare and Medicaid, including a new screening process for all providers and suppliers, requiring providers and suppliers to adopt compliance programs as a condition of participating in Medicare and Medicaid, and establishing stiffer penalties for those who fraudulently bill Medicare.

- The bill achieves additional Medicare savings by: reducing over-billing by providers; cutting out duplicative paperwork and tests; and preventing dangerous hospital readmissions by providing follow-up care that will help individuals safely transition home after a hospital stay.

UNEARNED INCOME MEDICARE CONTRIBUTION FOR TOP 2 PERCENT & OTHER REVENUE RAISERS

Roughly the remaining half of the cost of the health reform bill is paid for by an unearned income Medicare contribution for the wealthiest 2 percent, fees on certain health care industries, a scaled-back excise tax on high-cost plans, closing two tax loopholes, and certain other small revenue raisers.

UNEARNED INCOME MEDICARE CONTRIBUTION

- To help pay for health reform, the bill requires a contribution from the wealthiest 2 percent of Americans. It slightly increases the Medicare Hospital Insurance (HI) tax (by 0.9%) on the portion of wages and self-employment income above $200,000 for individuals and $250,000 for married couples. It also creates an "Unearned Income Medicare Contribution" – broadening the taxable base of the HI tax to apply to unearned income if the taxpayer's income is above an income threshold of $200,000 for individuals and $250,000 for married couples. In broadening the base to apply to unearned income, the bill explicitly exempts income actively earned by people running a small, closely-held business (for example, active income earned from shares in an S corporation).

FEES ON HEALTH CARE INDUSTRIES BENEFITTING FROM REFORM

The bill includes fees on health care industries that will benefit from reform, including the following:

- **Health Insurance Providers:** The bill imposes an annual fee on the health insurance sector beginning in 2014, allocated across the industry according to market share.

- **Pharmaceutical Manufacturers:** The bill imposes an annual fee on the pharmaceutical manufacturing sector beginning in 2011, allocated across the industry according to market share.

- **Medical Device Manufacturers:** The bill imposes an excise tax on the sale of a medical device by a manufacturer or importer at a rate of 2.3 percent, beginning in 2013. Exempted are eyeglasses, contact lenses, hearing aids, and any device generally purchased at retail for individual use.

SCALED-BACK EXCISE TAX ON HIGH-COST PLANS

The bill includes a substantially scaled-back excise tax on high-cost plans – scaling back the revenues collected in the first 10 years by 80 percent. It delays the effective date of the tax from 2013 to 2018, thereby allowing all health plans additional time to become more efficient and avoid paying the tax. It also focuses on the most generous plans, without impairing the tax's ability to slow the growth of health care costs over the long term.

CLOSING TAX LOOPHOLES

The bill includes provisions closing two key tax loopholes, as follows:

- **"Black Liquor:"** The tax credit for the production of cellulosic biofuels is designed to promote the production and use of renewable fuels. This bill closes a loophole by clarifying that certain liquid byproducts derived from processing paper or pulp (known as "black liquor") were never intended to be covered by this credit and are not eligible.

- **Economic Substance:** The bill helps prevent unjustified tax shelters by clarifying the circumstances under which transactions have "economic substance" (as opposed to being undertaken solely to obtain tax benefits) and raises the penalties for transactions that lack economic substance.