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House Passes Legislation that will Fundamentally Transform America's Health Care System

The House of Representatives has passed two pieces of legislation that will fundamentally transform America's health care system. First, it passed the Senate's Patient Protection and Affordable Care Act (H.R. 3590), a comprehensive reform bill that will go to the President for his signature. Second, the House passed the Health Care & Education Affordability Reconciliation Act (H.R. 4872). This second bill makes some amendments to the underlying bill and must now be considered by the Senate. Together, the provisions in these bills will impact providers, insurers, employers, individuals, states and localities.

Generally, this legislative package makes incremental changes to the health insurance marketplace in order to expand coverage. By 2014, an individual will be required to have health insurance coverage or pay a penalty. The legislation includes: insurance market reforms with national rules that will be administered at the state level; subsidies for low-income individuals who do not have workplace coverage to purchase coverage; Medicaid expansion; and employer responsibilities to offer coverage or potentially pay a penalty if any of their full-time workers are eligible for, and receive, insurance subsidies. The bills raise significant new revenues – through new taxes, improved efficiencies and spending cuts (particularly to Medicare Advantage) – in order to finance an anticipated 15 million additional Americans receiving Medicaid coverage and 15 million Americans receiving subsidies to purchase private health insurance coverage.

This *Alert* reflects the policies that would result from both H.R. 3590 and H.R. 4872 becoming law. It is intended as a summary only and is not to be relied upon for drawing legal conclusions or advising clients about specific issues.

2010

Insurance Reforms: Within 6 months from the date of enactment, all existing health insurance plans will be subject to new regulations that prohibit lifetime limits, rescissions, and excessive waiting periods. In addition, a requirement to provide coverage for non-dependent children up to age 26 will be imposed. Prior to 2014, the requirement on group health plans for coverage of non-dependent children is limited to those adult children without an offer of employer sponsored coverage.

Restriction on Annual Limits: Restricts annual limits for group health plans six months after date of enactment.

False Claims Act: Narrows the application of the False Claims Act's public disclosure bar.

Small Employer Tax Credit: The legislation provides a sliding scale tax credit to small employers with fewer than 25 employees on average.

2011

Fee on Manufacturers and Importers of Branded Drugs: Fees will raise \$2.5 billion for 2011; \$3.0 billion per year for 2012-2016; \$3.5 billion for 2017; \$4.2 billion for 2018; and \$2.8 billion thereafter.

Physician Ownership Referral: Physicians are prohibited from self-referring to hospitals in which they have an ownership interest. There is a limited exception to the growth restrictions for grandfathered physician owned hospitals that treat the highest percentage of Medicaid patients in their county (and are not the sole hospital in a county).

Enhanced Oversight for Initial Claims of DME Suppliers: Requires a 90-day period to withhold payment and conduct enhanced oversight in cases where the HHS Secretary identifies a significant risk of fraud among DME suppliers.

Funding to Fight Waste, Fraud and Abuse: Increases funding for the Health Care Fraud and Abuse Control Fund by \$250 million over 10 years. Indexes funds to fight Medicaid fraud based on the increase in the CPI.

Market Basket and Productivity Adjustments: With varying effective dates, reduces annual market basket for inpatient hospital, home health, skilled nursing facility, hospice and other Medicare providers. Also includes productivity adjustments.

2012

Medicare Advantage (MA): MA payments are frozen for 2011. Beginning in 2012, a new system of blended benchmarks will be phased-in. Payments will be linked to county benchmarks, which will vary based on the county's fee-for-service costs. Bonuses will be available to high-performing plans.

2013

FSA Limits: Places an annual limit of \$2,500 on contributions that can be made to health FSA arrangements; indexed to CPI-U after 2013.

Medical Device Tax: 2.3 percent excise tax on manufacturers and importers of certain medical devices.

Elimination of Deduction for Part D Subsidy: The existing employer tax deduction for the Part D subsidy is eliminated.

Broadening of Medicare Hospital Insurance Tax Base: Imposes additional surtax of 0.9 percent on earned income in excess of \$200,000/\$250,000 (unindexed) and a 3.8 percent surtax on investment income for taxpayers with AGI in excess of \$200,000/\$250,000 (unindexed).

Medicaid Reimbursements to Primary Care Physicians: Requires that Medicaid payment rates to primary care physicians furnishing primary care services be no less than 100 percent of Medicare payment rates in 2013 and 2014. Provides 100 percent federal funding for the incremental costs to states of meeting this requirement.

2014

Health Insurance Exchanges: States must establish an American Health Benefit Exchange that facilitates the purchase of qualified health plans and includes a SHOP Exchange for small businesses. Qualified individuals (individuals who are not incarcerated and who are lawfully residing in a state) can enroll in a qualified health plan through a State Exchange. Small employers can offer a choice of plans to their employees through the Exchange.

Individual Obligation: Other than individuals who meet a hardship exemption, individuals will be required to carry eligible health coverage. The fully phased-in penalty for not having health insurance is the greater of \$695 or 2.5 percent of income.

Employer Obligation: Employers with 50 or more full time equivalent (FTE) employees face a number of coverage obligations. Those that do not provide health coverage would be assessed \$2,000 for each full-time employee in their workforce. These employers would not be assessed a penalty for the first 30 full-time employees. Employers that provide coverage that is deemed unaffordable would be assessed the lesser of \$3,000 for each full-time employee who obtains a premium credit in a health insurance exchange or \$2,000 for all FTE employees. Mitigating these obligations, employers would be permitted to have waiting periods of up to 90 days without being subject to penalties. Furthermore, part-time employees would be considered when calculating employer size for the purpose of determining employer coverage responsibility requirements (i.e. 2 employees working 15 hours each per week equal 1 FTE employee). Penalties, however, would be assessed only on behalf of full-time employees who work 30 or more hours per week.

Annual Fee on Health Insurance Providers: Fees will raise \$8 billion in 2014; \$11.3 billion in 2015 and 2016; \$13.9 billion in 2017; \$14.3 billion in 2018; and indexed to medical cost growth thereafter.

Pre-existing condition exclusions: Prohibits pre-existing condition exclusions for group health plans.

Prohibition on Annual Limits: Prohibits annual limits for group health plans.

Medicare DSH Cuts: Reductions in Medicare DSH payments begin. DSH payments are initially reduced by 75 percent and then subsequently increased based on the size of the uninsured population and the amount of uncompensated care.

Medicaid DSH Cuts: Reductions in DSH allotments by \$0.5 billion in 2014, \$.6 billion in 2015, \$0.6 billion in 2016, \$1.8 billion in 2017, \$5 billion in 2018, \$5.6 billion in 2019, and \$4 billion in 2020.

2015

IPAB: Establishes an Independent Payment Advisory Board (IPAB), charged with recommending reductions in Medicare spending. Congress must either adopt the IPAB's proposed cuts or pass an alternative with equivalent savings. The IPAB will first propose cuts in 2014 for implementation in 2015.

2016

Interstate Health Choice Compacts: Under these compacts, qualified health plans could be offered in all participating States, but insurers would still be subject to the consumer protection laws of the purchaser's state.

2017

Large Employer Participation in Exchanges: States may allow large employers to offer coverage to their employees through the exchanges.

2018

High premium excise tax: Imposes a 40 percent excise tax on health coverage in excess of \$10,200/\$27,500 and increased thresholds of \$1,650/\$3,450 for over age 55 retirees or certain high-risk professions, both indexed for inflation by CPI-U plus one percent; adjustment based on age and gender profile of employees; vision and dental excluded from excise tax.

2019/2020

Indexing of Premium Subsidies: To slow the growth of these premium subsidies, beginning in 2019, the indexing of these subsidies is adjusted if premiums are growing faster than CPI.

Indexing of High Premium Tax Thresholds: Beginning in 2020, the thresholds for the high premium tax will be reindexed to the general rate of inflation.

This *GT Alert* was prepared by Nancy Taylor, Katie Mahoney and Brendan Dunn. Questions about this information can be directed to:

- [Nancy Taylor](mailto:taylor@gtlaw.com) – 202.331.3133 (taylor@gtlaw.com)
- [Katie Mahoney](mailto:mahoney@gtlaw.com) – 202.331.3140 (mahoney@gtlaw.com)
- [Brendan Dunn](mailto:dunn@gtlaw.com) – 202.331.3145 (dunn@gtlaw.com)
- Or your [Greenberg Traurig](#) attorney

Albany
518.689.1400

Amsterdam
+31 20 301 7300

Atlanta
678.553.2100

Austin
512.320.7200

Boston
617.310.6000

Chicago
312.456.8400

Dallas
214.665.3600

Delaware
302.661.7000

Denver
303.572.6500

Fort Lauderdale
954.765.0500

Houston
713.374.3500

Las Vegas
702.792.3773

Los Angeles
310.586.7700

London*
+44 (0) 203 349 8700

Miami
305.579.0500

New Jersey
973.360.7900

New York
212.801.9200

Orange County
949.732.6500

Orlando
407.420.1000

Palm Beach County North
561.650.7900

Palm Beach County South
561.955.7600

Philadelphia
215.988.7800

Phoenix
602.445.8000

Sacramento
916.442.1111

San Francisco
415.655.1300

Shanghai
+86 21 6391 6633

Silicon Valley
650.328.8500

Tallahassee
850.222.6891

Tampa
813.318.5700

Tysons Corner
703.749.1300

Washington, D.C.
202.331.3100

White Plains
914.286.2900

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