



HEALTH CARE REFORM OUR UPDATE & ADVICE

MORRIS & REYNOLDS INSURANCE PRESENTS ADVICE & ANSWERS ON AMERICA'S HEALTH CARE REFORM

BREAKING DOWN NEW HEALTH LAW



While many of the specifics have not been finalized, we can expect to feel the effects of the new law from both a health insurance sales and a small business

perspective. Implementation is scheduled in stages over the next four years and many of the details will be determined by the Department of Health and Human Services (HHS) and the states. Though there remains significant uncertainty over the details, some of the following issues are bound to affect businesses:

HEALTH INSURANCE EXCHANGES: The new law creates state "Health Insurance Exchanges" for the individual and small group markets. Each state must create exchanges by 2014 where individuals and employers can directly obtain insurance provided by participating private insurers. The exchanges will include four tiers of private plans, co-op plans and at least two multi-state qualified health plans contracted out to private carriers by the Office of Personnel Management (OPM). While agents will be able to place coverage for clients through the exchanges, the marketing or commission regulations are still unclear. One thing is clear, however: states will play a very large role in determining and then implementing any regulations in these areas.

MEDICAL LOSS RATIOS (MLRs): Insurance carriers will have to abide by new MLRs where the insurance plans must spend a certain percentage of their premiums on health care delivery costs only. The MLR will be 80% for individual policies and small group plans and 85% for large group plans (>100 individuals). Thus, companies will only be able to spend 20% of individual/small group plan premiums and 15% of large group premi-

ums on things such as marketing, administrative costs and agent commissions.

NEW TAXES: Among others, the new law imposes a direct \$2 billion annual tax on health insurance companies beginning in 2010. The tax will increase each year until reaching \$14.3 billion in 2018. The law also increases the Medicare tax rate on wages by 0.9% (from 1.45% to 2.35%) on earnings over \$200,000 (\$250,000 family) for individuals. Finally, it imposes a new 3.8% tax on unearned income for these same taxpayers.

NEW CONSUMERS: It is estimated that the new law will add approximately 32 million more people to the health insurance rolls. About half of these would be from expanded government entitlement programs such as Medicaid and State Children's Health Insurance Program (CHIP). Nonetheless, that means an estimated 16 million new consumers may access the private insurance market.

WELLNESS INITIATIVES: Starting in 2011, some small businesses may be eligible to receive federal grant money for "wellness initiatives." Aside from stating that such grants will be available, the law does not specify who would be eligible, how small businesses would apply or define "wellness initiatives." The details are to be determined by HHS and the states.

EMPLOYER MANDATE CONCERNS: The new law does not contain a true employer mandate, but by 2014, employers with more than 50 employees will face a penalty if they do not offer health insurance coverage and at least one of their employees gets coverage through an exchange and gets a premium credit. The penalty will be \$2,000 per full-time employee (the first 30 employees will be excluded from the calculation). Meanwhile, employers that do offer health insurance coverage but have at least one employee who receives a premium credit through an exchange are required to pay the lesser of \$3,000 for each employee who receives a premium credit or \$750 for each full-time employee.

TAX CREDITS: Small businesses may qualify for temporary tax credits to help them adjust to the new law. In 2010, some small businesses are eligible for tax credits of up to 35% of the employer's contribution towards the employee health insurance premium. The full credit will be available to employers with 10 or fewer employees and average annual wages of less than \$25,000; from that point, the credit will decrease as the business size and average wages increase, to a maximum of 25 employees and average wages of \$50,000. In 2014, this tax credit will change, and eligible businesses will have tax credits up to 50% of the employer's contribution. After 2014, these credits will only be available for two years.

This is just a small sampling of the many changes on the horizon for independent agents, brokers and small businesses as the health care reform law is implemented. The We will continue to analyze and provide information to members as details develop.

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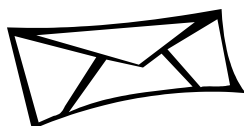
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Sources: The House Committees on Ways and Means, Energy and Commerce, & Education and Labor, 2010.



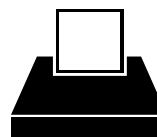
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