After almost a year of debate, the President signed into law a new health care bill, achieving his goal of a broad reform of the US health care system. Health care reform will offer our clients a mixed bag of opportunities and challenges.

Health Care Options for Canadians Moving to the US

The new law will now make medical coverage easily available for Canadians who become legal residents of the US. This is a very important advantage for many of our clients who have had difficulty in obtaining health insurance coverage, and it will simplify the process for obtaining coverage for our clients.

Taxes

A quantifiable impact of the bill is an increase in taxes for upper-income American taxpayers, particularly on investment income.

Beginning in 2013, taxpayers with household incomes of at least $250,000 ($200,000 for singles) will pay a 3.8% Medicare tax on investment income. Beginning in 2013, this new tax will apply to interest, dividends, capital gains, and rents. For example, a retired couple earning $251,000 annually from pensions ($81,000), rent ($30,000), and a taxable portfolio ($140,000) will pay an extra $6,460 in tax. The 3.8% tax will not, however, apply to federal tax-exempt bonds or investments in tax-deferred retirement accounts such as 401(k) plans or IRAs.

Beginning in 2010, taxpayers with household incomes of at least $250,000 ($200,000 for singles) will pay an additional 0.90% Medicare tax on earned income. This means that the current Medicare tax paid by employees, usually through salary withholding, will increase from 1.45% to 2.35%.

How the Taxes Might Affect the Financial Markets

Roughly half of US stocks are owned by households with income under $250,000, and roughly half of that is held in non-taxable accounts like IRAs and 401ks, or in non-taxable investments like municipal bonds. Because the Medicare tax will not be imposed on non-taxable accounts or investments, we expect that this will have a positive impact on municipalities as more money will flow into local governments.

The bill does not put stocks at a disadvantage to fixed income because both interest and dividends will be equally affected. Also, based on recent expert opinions, the passing of this bill should add stability to the cyclical growth period that we are experiencing.

Medical Coverage and the Medical Care Industry

Pre-existing condition restrictions will be abolished. Competitive market pools for people with pre-existing conditions will be available within 90 days of enactment. Pre-existing conditions limitations against children will be abolished within six months; for adults, by 2014.

Health insurance coverage is required by law. To prevent the influx of previously uninsurable people (the "bad risks") from swamping the insurance pool, everyone who can afford to pay premiums is required to have insurance beginning in 2014 or pay an annual fee/tax/fine of $695. This measure pulls into the insurance pool all of those "good risks," many of whom are healthy twenty-somethings that currently do not access the health care system and may not carry health insurance because of high relative costs.

The Medical care industry will benefit. This bill will expand demand for insurance, and insurance carriers will not have to reduce costs in any meaningful way. The requirement to carry health insurance and the ability to insure previously uninsurable people will increase the pool of insured individuals. While insurance companies will be prevented from limiting coverage, insurers, physicians, and health care providers will have very few, if any, restrictions on how much they can charge.

Pharmaceutical companies will also benefit. There is no limitation on price setting by pharmaceutical companies. They will have to pay cumulative taxes of $107 billion between 2011 and 2019, but they will be able to pass this cost on to consumers.

Among insurance companies, established competitive markets will have some government oversight, and some barriers to competition between insurers will be lifted. There will be many more options for insurance coverage for individuals and families, particularly those with modest incomes, persons with preexisting conditions, and the self-employed. Premiums should be lower than they might be without these competitive markets.

Subsidies will be offered for certain people to purchase health insurance. Because participation will be mandatory, working people with modest incomes (up to $88,200 for a family of four) and no employment-based health benefits will receive a subsidy to help them with the cost of participating in the insurance pool.

Health insurance exchanges will be available options. The uninsured, previously uninsurable, and self-employed will be able to purchase insurance through state-based exchanges. Separate exchanges will be created for small businesses to purchase coverage in 2014. States will receive funding to help establish exchanges within one year of enactment and through January 1, 2015.

Employer-paid health insurance remains the mainstay of the system. Employers of 50 or more employees must provide insurance or pay a $2,000 fine annually for each worker who receives a health care subsidy because his/her employer does not offer health benefits.

Health care services for the poor will be expanded. A broader range of low income people (especially childless adults of working age) will have access to government managed health care. Rather than establish a completely new government health care system, Congress will expand the existing civilian government system--Medicaid.

The Medicare Part D drug plan "donut hole" will close by 2020, and a 50% brand name drug discount will begin in 2011. The Medicare drug plan is designed with a "donut hole" gap where total annual out-of-pocket costs are not reimbursed. This will be closed in 2020. For now, seniors in the "hole" will receive a 50% discount on brand name drugs beginning in 2011.

Children are allowed to remain on their parents' health insurance plans through age 26. This provision recognizes that many young adults are not financially independent until later in their twenties.

High-end health insurance plans will be taxed to the insurance companies. Beginning in 2018, a 40% excise tax will be imposed on insurance companies for high-end "Cadillac" insurance plans worth over $27,500 per family, excluding dental and vision plans. Insurance companies will be able to spread this cost among the total insurance pool, not just those who have high-end insurance plans.

Future funding of the most expensive part of the plan--US Medicaid--is uncertain. Congress is making no legally enforceable promises to fully fund US Medicaid (administered by the states) after 2016.

The Federal Deficit and How this is Funded

Funding of US Medicare will be cut $500 billion over ten years. In theory, through a variety of measures, the new health care regime will make Medicare more efficient. So this funding reduction, required by the new law, should not trigger a reduction in services to seniors.

2010 Health Reform will reduce the deficit by $143 billion over ten years. The mandatory $500 billion cut in Medicare is a major component of the Obama Administration's tax saving arithmetic: that Health Reform will reduce the federal government's budget deficit by $143 billion over ten years. These estimates should be taken with a grain of salt--it is obviously very hard to estimate what total federal health care spending will be.

* * * * *

There have been strong opinions on all sides of political debate that led up to the passing of this new law. We will continue to keep our political views and emotions on the sidelines, and help keep everything in its proper perspective, so that we can continue to advise you on any implications that might directly affect your financial future.

Please give us a call if you would like more information.