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# House Passes the American Health Care Act



*Effective 2020, the AHCA repeals tax credits available for low-wage, small employers that provide health-care coverage to their employees.*

On May 4, 2017, the House of Representatives passed the American Health Care Act (AHCA). With some changes, this is essentially the same law that was pulled from consideration by the House back in March. Compared to the Affordable Care Act (ACA or Obamacare), the AHCA repeals the health insurance mandate for both individuals and large employers; caps Medicaid funding to states beginning in 2020; eliminates several ACA taxes, including those applicable to high-wage earners; and replaces tax credits and subsidies based on income with tax credits based on age and income. The House passed the AHCA prior to an updated analysis from the Congressional Budget Office (CBO) as to the budgetary effects of the law.

## Some ACA provisions remain

Here's a brief description of some elements of the ACA that remain in place under the AHCA:

- Insurers are prohibited from discriminating against people with pre-existing conditions. However, beginning in 2019, the law allows states to apply for waivers, in which case insurers in those states could charge people in the individual Marketplace with pre-existing medical conditions higher premiums for about a year if they have a gap in coverage of at least 63 consecutive days.
- All individual health plans purchased during open enrollment are required to be "guaranteed issue," meaning an applicant must be offered coverage regardless of health status.
- The requirement that health plans cover 10 essential health benefit categories remains. However, beginning in 2020, states may apply for waivers, which allow states to redefine essential health benefits for coverage in the individual and small group markets.
- Dependent young adults can remain on their parent's health-care plan to age 26.
- Current lifetime and annual out-of-pocket dollar limits for essential health benefits remain the same, which can be changed for states electing a waiver.
- Federal funding of Medicaid continues to states that extended coverage to include more people and more services through 2019. Beginning January 1, 2020, federal funding to those states will continue, but only to people who were in the Medicaid program at the end of 2019. Otherwise, beginning in 2020, Medicaid funding to states will be a fixed amount based on the total number of Medicaid enrollees (per capita), and not based on the actual cost of Medicaid services provided to individual recipients.
- Health insurance Marketplaces and open enrollment periods remain in place.

## Major changes

The following are some of the significant changes made by the AHCA:

- The health insurance mandate and penalty for people who don't have qualifying health insurance coverage are eliminated, retroactive to December 31, 2015, meaning the penalty would not apply to anyone who didn't have health insurance in 2016.
- The mandate that large employers provide health insurance to eligible employees is repealed.
- The limit that insurers can charge their oldest enrollees for insurance premiums is changed from three times what they charge their youngest enrollees to five times the premium charge.
- Insurers are allowed to charge a late enrollment penalty of 30% of premiums for health insurance

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applicants who have a lapse in insurance coverage of 63 days or longer.

- Starting in 2020, premium tax credits and cost-sharing subsidies are replaced with a flat, age-based tax credit that can be applied to any eligible individual health insurance policy regardless of where it's purchased (the policy wouldn't have to be obtained through a Marketplace.) The credits would start at \$2,000 for individuals up to age 29 and increase in \$500 increments until capping at \$4,000 for individuals age 60 and older. Credits are gradually reduced for individuals with yearly incomes exceeding \$75,000 and for households that earn over \$150,000.
- Establish a State Patient and State Stability Fund for states that seek waivers of essential health benefits and health rating requirements. Federal funding is available to states electing waivers to provide financial help to high-risk individuals.
- The 3.8% tax on unearned income for high-income taxpayers is repealed. The 0.9% Medicare payroll tax on high-wage earners is repealed effective January 1, 2023.
- The tax-free contribution limits for health savings accounts (HSAs) are increased. Also, the provision excluding costs for non-prescribed over-the-counter drugs from reimbursement through an HSA is repealed.
- The annual limit on contributions to health flexible spending accounts (FSAs) is repealed.
- The Cadillac tax on high-cost employer-sponsored health plans is suspended for tax years 2020 through 2025.
- The tax on tanning beds is repealed.
- The taxes on health insurers and pharmaceutical manufacturers are repealed.

The AHCA now moves to the Senate, where it will be debated and possibly altered. It is also likely that the Congressional Budget Office will provide its estimate of the budgetary effects of the AHCA.

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