



Essential Facts about the American Health Care Act

On March 6, House Republicans released their proposed health-care plan, The American Health Care Act (AHCA), as a replacement for the Affordable Care Act (ACA). The bill 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.

However, there remain many unanswered questions concerning the AHCA, including the plan's price tag. Though the proposed plan will be debated and likely altered, the following is a brief description of the Act's main features.

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.
- 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.
- Dependent young adults can remain on their parent's health-care plan to age 26.
- Current lifetime and annual out-of-pocket dollar limits remain the same.
- 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- The mandate that large employers provide health insurance to eligible employees is repealed.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 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.



Another provision of the AHCA returns the threshold for deducting out-of-pocket medical expenses to 7.5% of the taxpayer's adjusted gross income (it's currently 10%).

- The 0.9% Medicare payroll tax on high wage earners and the 3.8% tax on unearned income for high-income taxpayers are repealed.
- The tax-free contribution limits for Health Savings Accounts (HSAs) are increased.
- 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 2024.
- The tax on tanning beds is repealed.

CBO cost estimate

The Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT) have produced an estimate of the budgetary effects of the American Health Care Act. You can view the entire report [here](#). Highlights from the report include:

- The legislation would reduce federal deficits by \$337 billion over the 2017-2026 period.
- It is estimated that, in 2018, 14 million more people would be uninsured under the legislation than under current law. Most of that increase would stem from repealing the penalties associated with the individual mandate. Later, following additional changes to the Medicaid program and to subsidies for insurance purchased in the nongroup market, the increase in the number of uninsured people relative to the number under current law would rise to 21 million in 2020 and then to 24 million in 2026.
- In 2018 and 2019, it is estimated that average premiums for single policyholders in the nongroup market would be 15% to 20% higher than under current law.
- Starting in 2020, the increase in average premiums from repealing the individual mandate penalties would be more than offset by the combination of several factors that would decrease those premiums.
- By 2026, average premiums for single policyholders in the nongroup market under the legislation would be roughly 10% lower than under current law. However, under the AHCA, insurers would be allowed to generally charge five times more for older enrollees than younger ones rather than three times more as under current law, substantially reducing premiums for young adults and substantially raising premiums for older people.

The AHCA will likely undergo some changes as it moves through the legislative process. As such, the final version of the law intended to replace the ACA may not look like the initial version just proposed.

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