



# HEALTH INSURANCE IS CHANGING: WHAT THIS MEANS FOR YOU

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U.S. health care reform is in full swing, as the 2010 Affordable Care Act (ACA) gets implemented nationwide. What will it mean for you? The answer varies depending on your current health-insurance coverage.

What we do know is nearly all U.S. citizens will be required to have coverage by January 1, 2014. (March 2014 is often cited as the deadline, because the law allows for a three-month lapse in coverage next year). Proof of insurance will not be required until you file your 2014 tax return, with which you'll need to include a special form your insurer will send you in early 2015. For those without health insurance, there will be gradually increasing monetary penalties (to at least \$670 annually per person by 2016).

## WHO'S AFFECTED

An estimated 80% of Washington residents already have health insurance, mostly through employers or the federal government (the military, Medicare or Medicaid). If you're happy with your existing coverage, you don't need to change anything.

However, due to health care reform, insurers are changing or discontinuing many of their policies to comply with new regulations or the demands of the marketplace.

So a "change in policy" letter is not uncommon, and it is not necessarily a bad thing. Look to see what's changing and how much it will cost you. Sometimes, the change is simply the inclusion of ACA-mandated things like full coverage of preventive care and inclusion of children up to 26 years old.

In certain cases, your policy may be discontinued or change for the worse. Below, we provide tips on how to shop for health insurance, depending on various situations.

## MEDICARE AND RELATED PLANS

If you have Medicare or related coverage, do not bother with the WA State online health-insurance exchange, launched earlier this month. This and all other state Exchanges do not offer any Medicare-related information or policies.

What if your Medicare Advantage or Medigap plan is being discontinued or will change for the worse? The time to act is now. Literally. The Medicare open enrollment period runs from October 15 to December 7 of each year. During this period, you can switch from regular Medicare to a Medicare Advantage plan (or vice versa), or switch from one Medicare Advantage plan to another, with the new coverage to start January 1, 2014.

**"If you're happy with your existing coverage, you don't need to change anything."**



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## ATTENTION SHOPPERS

Things to keep in mind when you shop for health insurance:

- Estimate in advance what your health care usage is: how often you go to the doctor; how much do you spend on prescription drugs; what's the likelihood of surgeries and other expensive operations.
- Be sure you're comparing apples to apples in terms of premiums, deductibles, co-pays, maximum out-of-pocket annual costs, and coverage. The WA Exchange, for example, allows you to directly compare three plans at a time.
- Find out if the plan covers you while traveling or living outside of WA.

Below are some good sources for comparing Medicare-related options:

- The U.S. government's Medicare plan finder: [www.medicare.gov](http://www.medicare.gov)
- NCOA's 2013-2014 rankings of Medicare HMO and PPO plans: [www.ncqa.org](http://www.ncqa.org)

**NOTE:** If you already have a Medicare Advantage plan, and want to switch to another one, the first thing to do is to enroll in the new plan, not to un-enroll from your old plan. It's best to enroll in a new plan by calling 800-MEDICARE, rather than by calling the new plan.

**What if you're on Medicare but your spouse is not?** The good news is that the younger spouse can now shop for coverage – on and off the WA Exchange ([www.wahealthplanfinder.org](http://www.wahealthplanfinder.org)) – without answering questions about his/her pre-existing health conditions.

Your younger spouse might even qualify for a government tax credit that instantly lowers his/her cost of insurance, if your annual household income falls within certain ranges (see "What You're Expected to Pay"). This can be the case if most of your assets are non-income producing or in retirement accounts.

## THE WA EXCHANGE: A POINT OF COMPARISON

For those under 65, the WA Exchange ([www.wahealthplanfinder.org](http://www.wahealthplanfinder.org)) is yet another way to shop for health insurance – in addition to your usual brokers, insurance companies, and associations such as the AARP.

There are four levels of coverage on the Exchange: Bronze policies typically cover 60% of medical costs; Silver cover 70%; Gold cover 80%; and Platinum cover 90%. As of October, there were no Platinum plans on the WA Exchange, although this may change. And dental coverage is separate.

The only people who must use the Exchange to buy insurance are those who want to qualify for the special tax credit that instantly lowers the cost of premiums. However, even without this tax credit, you may still want to take a look at what the WA Exchange has to offer. Below are some hypotheticals that might apply to you or a member of your family:



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## WHAT YOU'RE EXPECTED TO PAY

The table below shows how much U.S. households are expected to pay out-of-pocket annually for insurance premiums – before they qualify for insurance-premium tax credits. This determination is based on annual household income relative to the Federal Poverty Level (the FPL).

To qualify for an insurance-premium tax credit in WA: (1) your household income cannot be more than 400% of the FPL for your household size (\$94,200 for family of four in 2013); (2) you must purchase the second-lowest-cost Silver plan on the WA Exchange; and (3) the annual premium for that Silver plan must be higher than the levels indicated in the table below.

Annual Income Relative to FPL	HOUSEHOLD SIZE				
	One Person FPL: \$11,490/Yr	Two People FPL: \$15,510/Yr	Three People FPL: \$19,539/Yr	Four People FPL: \$23,550/Yr	Five People FPL: \$27,527/Yr
100%	\$ 229.80	\$ 310.20	\$ 390.60	\$ 471.00	\$ 551.40
200%	\$ 1,447.74	\$ 1,954.26	\$ 2,460.78	\$ 2,967.30	\$ 3,473.82
300%	\$ 3,274.65	\$ 4,420.35	\$ 5,566.05	\$ 6,711.75	\$ 7,857.45
400%	\$ 4,366.20	\$ 5,893.80	\$ 7,421.40	\$ 8,949.00	\$ 10,476.60

SOURCE OF DATA: [Kitces.com](http://Kitces.com)

- ◆ You have an individual (non-group) policy. Iona is a 53-year-old consultant with a husband and three teenagers. Their current policy has a \$5,500 annual deductible and \$650 monthly premium. Because of the high deductible, Iona qualifies for a Health Savings Account (HSA), which she has set up at her bank. Each year, Iona takes a tax deduction for her HSA contribution – for 2013, a maximum of \$6,250 – and then withdraws money tax-free from the HSA to pay for medical expenses (deductibles, co-pays, prescription drugs, and therapies not covered by her policy).

Can Iona’s family get a better deal on the WA Exchange? Perhaps. The Exchange does offer Bronze and Silver plans with HSA accounts. So it might pay to comparison shop.

- ◆ Your employer’s coverage is a great deal for you, but costly if you add family members. As an engineer at Rocket Rivets, Inc., Neville pays \$20 a month for health insurance, but because he adds his wife and two kids to the plan, the cost climbs to nearly \$1,000 per month. On the WA Exchange, Neville can perhaps find similar plans for his wife and kids, with lower premiums. The younger Neville’s wife is, the more they’re likely to get a better deal on the Exchange.



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Note that as long as Neville's employer provides insurance to him alone at an affordable rate, the rest of his family cannot qualify for insurance-premium tax credits, even if their household income allows for that. This provision may change over time.

- ◆ **You're young (under 30).** Cecile turns 26 in June 2014 and is a UW grad student with part-time income of roughly \$17,000 per year. Up until she turns 26, Cecile can be covered through her parents' plan. After that, the WA Exchange is a good option. In fact, young people with low income get the best deals on the Exchange.

For one, Cecile probably qualifies for the insurance-premium tax credit. Her income is 150% of the federal poverty level, so the most she would be expected to pay for health care coverage is \$689 annually. The base of comparison is the second-lowest-cost "Silver" policy offered on the Exchange. Say that particular Silver coverage is \$300 per month, or \$3,600 annually. With government assistance (in the form of an "instant" tax credit), Cecile's out-of-pocket insurance cost drops to \$57 per month.

Another option: Cecile can opt for "Catastrophic" coverage on the WA Exchange – only those under 30 are allowed to do this. The premiums are quite low and all preventive care is fully covered, although co-pays and deductibles are higher.

- ◆ **Your household income drops dramatically.** Marion quit her job to launch a social-media company and plans to draw on her savings for two years. Her household income (from husband's salary and investments) will drop to around \$58,000 for 2013. On the Exchange, the most Marion and her family of three are expected to pay for the second-lowest-cost Silver Plan is \$463.84 a month, or \$5,566.05 a year. If the second-lowest-cost Silver Plan in fact has a \$640 monthly premium, and they opt for that one, the \$176-a-month difference is covered automatically by the special tax credit.

**Plan and compare.** We hope the above information is helpful, but please consider this only a general guide. Each situation is different, and the insurance marketplace is changing rapidly. Look for more on health care in future issues of *Navigator*.



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## ABOUT THE AUTHOR

**Kristi Mathisen** serves as Laird Norton Wealth Management's in-house expert on tax and estate planning issues. She provides advice on philanthropic strategies to the firm's client service team and to clients directly. She is an attorney and CPA and has more than 20 years of finance-related experience, much of it in accounting.

Kristi has a bachelor's degree in business administration with an accounting concentration from the University of Washington and a Juris Doctor from the University of Washington School of Law. She is a member of the Washington State and King County Bar Associations, the Washington State Society CPA and the American Institute of CPAs.

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