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New Policy Brief – The House GOP Leadership ACA Repeal and Replace Plan

On February 16, 2017, House Speaker Paul Ryan presented a new [Policy Brief](#) that contains many of the key reform elements House Republicans believe are essential to repeal and replace the ACA and overhaul the Medicaid system. The plan includes provisions to modernize Medicaid, utilize State Innovation Grants, enhance Health Savings Accounts (HSAs) and provide portable, monthly tax credits so all Americans can receive a tax credit to buy health insurance that meets their needs.

Tax Provisions

Many of the ACA replacement plans released to date, including the [Empowering Patients First Act of 2015](#), the [Patients' Choice Act](#) and [The Patient CARE Act](#), contain some form of tax reform. The new policy brief illustrates GOP leadership's intent to provide relief from ACA taxes and roll out a new "advanceable, refundable tax credit" for consumers that purchase coverage in the individual market.

Current ACA Taxes

To lower the cost of healthcare, Republicans will provide relief on many of the ACA tax provisions and during a transition period the penalty taxes for the individual mandate and the employer mandate will be "zeroed-out" immediately. Americans eligible for Exchange premium subsidies will be able to use a tax credit to purchase coverage, including currently prohibited catastrophic coverage. To promote premium stabilization during the transition period, Exchange subsidies will be adjusted to provide additional assistance to younger Americans and reduce the over-subsidization Republicans believe older Americans are receiving.

Proposed Tax Credit

The repeal and replace proposal provides all Americans access to an "advanceable" monthly tax credit that is not tied to a job or a government-mandated program. The universal tax credit is portable and refundable and can be used to buy health insurance on the individual market. Unlike the existing Exchange federal premium subsidies, the credit will not be based on income

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and older Americans will receive a higher tax credit than younger Americans, reflecting the higher premium cost for older taxpayers. Credits are not available to individuals covered through other sources of insurance, like employer-sponsored coverage or coverage provided through a governmental program.

Potential Limit to Tax Exclusion for Employer-sponsored Health Coverage

While the Policy Brief does not specially mention tax reform for employer-sponsored health coverage, there is a strong indication that the proposed tax credit will be coupled with a cap at some level on the tax exclusion for employer provided benefits. Policy experts believe that a limit to the tax exclusion for employer-sponsored coverage will provide significant revenue to help fund the new plan and it will eliminate the disparity in tax benefit that exists between employees in high tax brackets versus those in the lower brackets. The unequal tax treatment extends to consumers buying unsubsidized coverage in the individual market as well – i.e., consumers that don't qualify for federal premium assistance in the individual market pay 100% of their premiums with after-tax dollars. There is no tax credit available for coverage purchased nor is there any special health coverage above-the-line tax deduction as well.

Proposed Expansion of HSAs

Republicans want to expand how individuals and families use their HSAs by allowing them to increase their contributions so that the amount contributed to an HSA in any given year can be equal to the maximum out-of-pocket amounts allowed by law. Under current regulations, HSA contributions are capped in 2017 at \$3,400 for self-only and \$6,750 for family. If the annual contribution is capped at the maximum out-of-pocket, annual contributions could be up to \$6,550 for self-only and \$13,100 for family. In addition to an adjustment on maximum contributions, Republicans are also looking to allow both spouses to make catch-up contributions to a single HSA and are also looking to provide an administrative fix for claims incurred prior to the establishment of an HSA.

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Changing Marketplace

We anticipate that the next several months will be very interesting as lawmakers and the new administration work out all the details of the replacement legislation. We plan to assist our clients every step of the way as new information becomes available.

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