

# Health Care Reform\*

## The Affordable Care Act and its Impact on Your Wealth Management Strategy

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INTRODUCTION

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### What Is the Patient Protection and Affordable Care Act?

The Patient Protection and Affordable Care Act, informally known as Obamacare or the Affordable Care Act (ACA), has been the topic of much discussion regarding the future of the US health care system. The primary purpose of the ACA is to extend health insurance coverage to the 48 million Americans who are currently uninsured, according to US Census Bureau data for 2012. Since the ACA was passed in 2010, the US Census Bureau reports that the number of insured Americans has increased by roughly 3 million to 263.2 million, mostly due to an ACA provision which allows

children under the age of 26 years to remain on their parents' insurance policy.<sup>1</sup> As subsidies and insurance reforms begin in 2014, the number of Americans with insurance is expected to increase significantly. The Congressional

Budget Office estimates that the ACA will cover approximately 25 million uninsured Americans by 2020.<sup>2</sup>

While extending coverage to uninsured Americans is the focus of the ACA, this complex and

evolving legislation will also have widespread impact throughout the health care system. It is important to consider those implications with an advisor—especially the certainty of higher health care related costs—in the context of your overall wealth management plan.

*“When you work with your Financial Advisor at Morgan Stanley, you can better understand the implications of health care reforms, get help navigating the evolving medical landscape and count on your Advisor to help you incorporate health care needs and expenses into your overall wealth plan.”*

*—Harold E. Ford,  
Morgan Stanley Managing Director  
and former US Congressman*

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*\* Legislation, plans and participation in those plans continue to change. This report is as of February 11, 2014.*

# What the ACA Means for Insured Americans

## The Impact of the ACA on Individual Insurance Plans

### COMPLIANCE WITH ACA REGULATIONS

For most people who already have insurance, including those who are enrolled in private insurance or an employer-sponsored group plan, the initial impact of the ACA may be minimal. Current insurance plans are “grandfathered,” meaning that they are exempt from many of the new insurance regulations.

*“The Affordable Care Act redefines what has to be in an insurance policy and what can’t be in an insurance policy, so you’ll see far fewer variations in the marketplace and a lot less flexibility. That’s the new reality.”*

—Bruce Spector, Chairman and Co-Founder of PinnacleCare Private Health Advisory

However, if an individual or employer opts to make any changes to their insurance policy, then the plan must be brought into compliance with the full range of ACA regulations, including the “minimum essential benefits” package. Changes that would make grandfathered plans subject to ACA regulations include:

- A change in insurers;
- Changes in deductibles or co-payments; and
- Changes in benefits, among others.

In addition, grandfathered plans are closed to future entry, so eventually the plans’ coverage pools will shrink until they are no longer sustainable. At that point, those plans will also need to be overhauled to comply with all ACA regulations. So, even if the impact of the ACA is not immediate, it is likely inevitable.

### ESTABLISHMENT OF EXCHANGES

The ACA will likely have the biggest impact on Americans who are purchasing a new insurance plan through the private market. As of Oct. 1, 2013, most individual insurance plans are being sold through “exchanges,” government-regulated insurance marketplaces operating in all 50 states and the District of Columbia.

When a higher number of insurance companies participate on a state exchange, the pricing to the buyer is more competitive. However, many private insurance companies have elected not to participate in the exchanges, as their plans do not comply with ACA regulations and bringing them to standard is too expensive. As a result, individuals who are shopping for insurance on exchanges may be faced with limited choices and less competitive pricing.

## WHAT YOU NEED TO KNOW ...

### About Exchanges

An exchange is a website where shoppers can compare and buy health insurance.

The federal government runs the exchanges in most states, but some states do operate exchanges on their own.

Individuals who purchase insurance on an exchange may be eligible for government subsidies to offset some or even all premiums.

### About Insurance Plans on Exchanges

The plans are sold by private companies.

The plans are highly regulated and must fall into one of four groups—bronze, silver, gold and platinum—based on deductibles and other out-of-pocket costs.

Although several insurers may offer each type of plan, all plans in each grouping will be substantially the same since the ACA requires all plans to provide the same “minimum essential benefits.”

### INCREASE IN INSURANCE PREMIUMS

Insurance premiums have begun to rise under the ACA, but the magnitude of that increase varies widely depending on state and type of insurance. According to an analysis released by the Manhattan Institute in November 2013, the ACA will increase premiums for individuals who shop for coverage on their own by an average of 41 percent.<sup>4</sup> An analysis by *The Wall Street Journal* found that out-of-pocket costs—deductibles, copayments and co-insurance—are also likely to be higher for exchange-based plans, especially the lower cost ones.<sup>5</sup> A study by Avalere Health found that the ACA's "bronze" plans had an average deductible of \$5,150, more than four times higher than the average deductible in employer-sponsored insurance plans in 2013.

### ACCESS TO DOCTORS AND HOSPITALS

The ACA will affect availability and access to doctors and hospitals, as insurers who participate in the exchanges

are trying to control costs by reducing the number of providers in their networks. Likewise, some hospitals and health care centers are limiting their participation in public exchanges. The narrowing of networks combined with opt-outs by some hospitals has had a significant impact on covered access to Centers of Excellence. Availability and access continue to change, so it is imperative to consider your health care priorities and then carefully review provider websites.

The ACA's cuts in physician reimbursement also exacerbate the predicted shortage of physicians needed to deal with an aging US population, as more physicians retire or restrict their practices. In addition, since the primary purpose of the ACA is to increase insurance coverage to give more people access to health care, the ACA will increase the demand for medical services. In Massachusetts, a precursor to the ACA increased the average wait to see a primary care physician from 33 to 55 days.

### Understand Your Options for Insurance

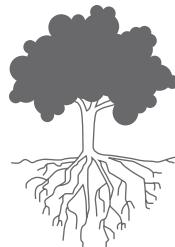
Regardless of whether you are actively seeking individual insurance or are currently enrolled in a private insurance or employer-sponsored group plan, the ACA will likely affect your options for insurance coverage at some point in time. You may not be able to keep your current policy, and you will likely encounter fewer insurance options and higher premiums or out-of-pocket costs. It may also be more difficult for you to keep your current doctor or access top physicians. ■

## Did You Know ...

In 2010, approximately **50 million** Americans were uninsured.<sup>3</sup>

The number of insured Americans has increased by roughly **3 million** since 2010.<sup>1</sup>

About **25 million** Americans are expected to gain insurance coverage by 2020.<sup>2</sup>



"We all have our unique medical needs. Whether we're on Medicare or private insurance, we need to recognize it's a new landscape and look carefully at the network we're getting through our insurance company and make sure that the network is going to match up with our clinical needs. You have to do your homework."

**BRUCE SPECTOR,**  
Chairman and Co-Founder  
of PinnacleCare Private  
Health Advisory

# What the ACA Means for Seniors

## About Medicare

Medicare is the largest US government-run health care program, covering approximately 43 million seniors.<sup>8</sup> Since Medicare payments account for roughly 20 percent of all US health care spending, the program has significant influence on the US health care market, and Medicare reimbursement decisions impact the entire health care system. Currently, Medicare faces massive future funding shortfalls, with an unfunded liability of \$34 trillion over the next 75 years, according to the May 2013 Medicare Trustees Report. Looking indefinitely into the future, *The Wall Street Journal* estimates that the unfunded liability in Medicare ranges from \$43 trillion to more than \$100 trillion.<sup>6</sup>

## The Impact of ACA on Medicare

### CHANGES IN REIMBURSEMENT

The ACA anticipates a \$716 billion reduction in Medicare spending over 10 years, due to:<sup>7</sup>

- Adjustments in reimbursements to hospitals, ambulatory service centers, skilled nursing facilities, hospice centers and other providers;
- Cutbacks in reimbursement for services the government believes are over-used, such as diagnostic screening and imaging;

- Freezing of reimbursement rates for home health care and inpatient rehabilitation services; and
- Significant cuts to physician-owned hospitals.

### LESS FUNDING FOR THE MEDICARE ADVANTAGE PROGRAM<sup>7</sup>

Seniors who are enrolled in the Medicare Advantage program can expect to feel an immediate impact of the ACA. Currently, 10.2 million seniors, or 22 percent of all Medicare recipients, are

enrolled in the Medicare Advantage program, which contracts with private insurance to provide health care benefits. The ACA cuts \$156 billion from Medicare Advantage funding through 2022, and many insurers are expected to stop participating in this program, while others will increase premiums.

### EFFECTS ON ACCESS TO HEALTH CARE

Another significant change to Medicare under the ACA is the creation of the Independent Payment Advisory Board (IPAB), a 15-member government panel responsible for keeping Medicare spending in check. In years when Medicare spending exceeds a target growth rate, the IPAB is required to submit a legislative proposal to Congress on how to curb spending. The IPAB is likely to have a significant impact on the availability of care for

## Did You Know ...

More than **43 million** seniors are currently part of the Medicare program.<sup>8</sup>

Medicare payments account for roughly **20%** of all US health care spending.<sup>9</sup>

ACA anticipates a **\$716 billion** reduction in Medicare spending over 10 years.<sup>7</sup>

**9,539** physicians opted out of the Medicare program in 2012.<sup>10</sup>

Up to **19%** of family physicians no longer accept new Medicare patients.<sup>10</sup>

Medicare patients, as their primary option for limiting spending is further reducing provider payments. Many doctors are already refusing to accept Medicare patients. According to *The Wall Street Journal*, 9,539 physicians opted out of the Medicare program in 2012, up from 3,700 in 2009.<sup>10</sup> Substantial declines in reimbursements rates will likely accelerate this process.

#### BETTER PRESCRIPTION DRUG BENEFITS

While the ACA reduces some benefits for seniors, it raises others. For instance, the ACA provides improved prescription drug coverage for seniors under Medicare's prescription drug

program, known as Medicare Part D. In its original design, Medicare Part D required seniors enrolled in the standard version of the prescription drug plan to pay for 100 percent of prescription drug costs between \$2,250 and \$3,600, the so-called "donut hole." The ACA gradually closes this donut hole, and by 2020, seniors will only be required to pay 25% of prescription drug spending within the donut hole (see diagram below).

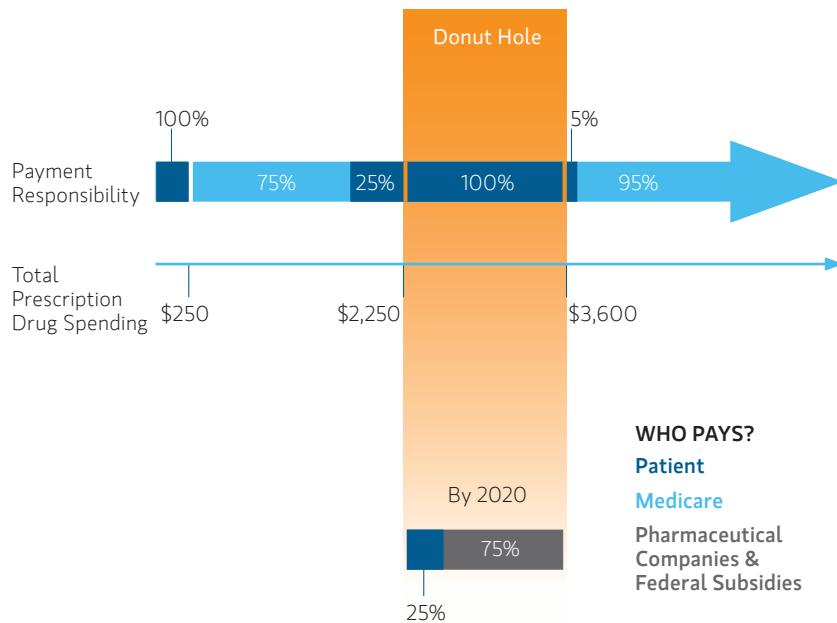
#### Make Health Care Part of Your Overall Financial Strategy

If you're currently on Medicare, or will reach Medicare eligibility over the next decade, the changes associated with the

ACA are likely to have a direct and significant impact on your out-of-pocket health care costs and access to care. Here are some important questions to consider:

- Is it more important for you to contain costs or have the funds to access private care, if necessary?
- Are you willing to pay out of pocket to see the physician of your choice, or are you comfortable staying within the future Medicare physician network?
- Are you enrolled in the most appropriate Medicare supplemental and prescription drug plan for your physician and medication needs? ■

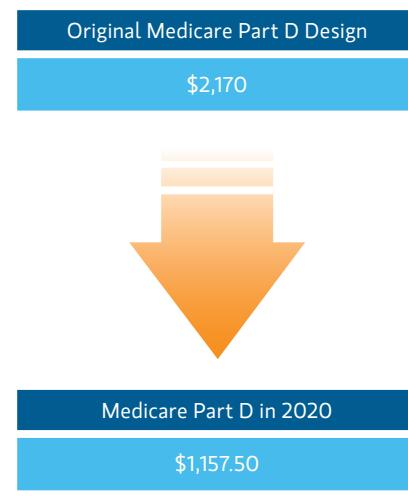
## ACA Is Changing Medicare Part D Prescription Drug Coverage



Sources: Medicare.gov and the Patient Protection and Affordable Care Act

## How ACA Affects Prescription Drug Spending for Seniors With Standard Medicare Part D

If Your Annual Prescription Drug Spending is \$5,000, Your Out-Of-Pocket Spending Would Be:



# The Health-Wealth Connection

The private health insurance landscape is undergoing rapid change, and it can be hard to keep up with the challenge of accessing the health care you want and need. Your Morgan Stanley Financial Advisor can help you understand the landscape and incorporate health care costs into your long-term financial plan. In addition, your advisor can connect you with health care resources such as PinnacleCare Private Health Advisory, a strategic referral of Morgan Stanley, to help you navigate the health care system and deliver in-depth advice to address medical issues you or a loved one might be facing. It's time to think about health care in the context of your overall wealth management plan. ■

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<sup>5</sup> Forbes. WSJ: Health Insurance Rates Could 'Double Or Even Triple' For Healthy Consumers In Obamacare's Exchanges. Available at <http://www.forbes.com/sites/theapothecary/2013/07/01/wsj-health-insurance-rates-could-double-or-even-triple-for-healthy-consumers-in-obamacare-exchanges/>. Accessed Nov. 10, 2013.

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<sup>9</sup> Centers for Medicare & Medicaid Services. NHE Facts. Available at <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NHE-Fact-Sheet.html>. Accessed Jan. 9, 2014.

<sup>10</sup> The Wall Street Journal. More Doctors Steer Clear of Medicare. Available at <http://online.wsj.com/news/articles/SB10001424127887323971204578626151017241898>. Accessed Jan. 9, 2014.

**Disclosures:**

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