AFFORDABLE HEALTH CARE FOR AMERICA ACT

PAYING FOR HEALTH INSURANCE REFORM

The Affordable Health Care for America Act is fully paid for. Indeed, the nonpartisan Congressional Budget Office estimates that the bill will reduce the deficit by $32 billion (without the CLASS Act) over the next 10 years and will reduce the deficit by $104 billion (with the CLASS Act) over the next 10 years. The bill will also continue to reduce the deficit over the long-term. About half of the cost of the Affordable Health Care for America Act is paid for by targeting waste, fraud, and inefficiency in Medicare and Medicaid. Roughly the other half of the cost of the bill is paid for through a surcharge on a portion of the income of the wealthiest 3/10ths of one percent of Americans.

TARGETING WASTE, FRAUD, AND INEFFICIENCY IN MEDICARE & MEDICAID

- About half of the cost of the health reform bill is paid for by targeting waste, fraud and inefficiency in Medicare and Medicaid – mostly Medicare. Currently, billions of dollars are lost each year to waste and inefficiency in Medicare. The waste is driving up seniors' health care costs and threatening Medicare's long-term solvency. This bill strengthens and protects Medicare by eliminating waste and inefficiency without cutting any Medicare benefits – extending the solvency of Medicare by five years and improving the quality of care.

- Studies show that at least 5 percent of Medicare spending currently goes to waste, fraud and inefficiency. And it is the 5 percent going to waste, fraud, and inefficiency that is targeted for elimination in this bill. The Medicare savings in this bill are simply about a 5 percent reduction overall in what Medicare is expected to spend over the next 10 years.

- One example of the bill's Medicare savings is that it puts private Medicare Advantage plans and traditional Medicare on a level playing field by eliminating overpayments to Medicare Advantage plans over the next 10 years – thereby saving taxpayers over $150 billion. According to the nonpartisan Medicare Payment Advisory Commission, private Medicare Advantage plans are currently paid, on average, 14 percent more than traditional Medicare providers – and overpayments to certain plans exceed 50 percent.

- The bill also achieves substantial savings by: 1) providing that Medicare Part D beneficiaries will get a 50 percent reduction in price on any brand-name drugs they need while in the so-called "donut hole" where drug costs are not reimbursed at certain levels; and 2) requiring that drug companies provide rebates for individuals enrolled in both Medicare and Medicaid and for Part D low-income subsidy-eligible individuals that are at least as large as the Medicaid rebates that were provided prior to the enactment of Medicare Part D.

- The bill also achieves additional Medicare savings by such steps as: reducing over-billing by providers and cutting out duplicative paperwork and tests; cracking down on abuse from those who fraudulently bill Medicare; and preventing dangerous hospital readmissions by providing follow-up care that will help individuals safely transition home after a hospital stay.

SURCHARGE ON MILLIONAIRES & OTHER REVENUE RAISERS

Roughly the remaining half of the cost of the health reform bill is paid for by a health care surcharge on millionaires and certain other revenue raisers, which are relatively small.

SURCHARGE ON MILLIONAIRES

- Under the bill, the wealthiest 3/10ths of one percent of Americans would pay a surcharge on the portion of their income above $1 million for couples and $500,000 for singles to help make health insurance affordable for the middle class and small businesses.
- These top earners received a disproportionate share of the tax cuts over the last decade and also saw a large jump in their income and overall wealth. Indeed, the gap between the income of the top 1 percent and the rest of us has grown significantly in recent years.
- This provision ensures that middle-class Americans will see no tax increases.
- Some opponents have asserted that this surcharge will burden many of America's small business owners. This is simply not true. The nonpartisan Joint Committee on Taxation has found that only 1.2 percent of "small business owners" would pay the surcharge. A small business owner is defined as anyone with as little as $1 of business income.
- Indeed, the wealthy business owners who will pay the surcharge are not what you would consider to be "small business owners" – they include hedge fund managers, private equity fund managers, owners of privately held multinational companies, and lawyers and lobbyists making millions of dollars a year. The average annual income of these wealthy business owners paying the surcharge is nearly $3 million.
- Of the 1.2 percent who pay the surcharge, half derive more than two thirds of their income from non-business sources.

OTHER REVENUE RAISERS

The bill also includes several relatively small revenue raisers, including the following:

- With other health care industries already contributing to reform, the bill raises $20 billion over 10 years through imposing <u>an excise tax on medical devices</u> – only two-thirds of the tax in the Senate Finance bill. The medical device industry will gain from there being more insured Americans.
- The bill <u>increases tax compliance</u>. Under current law, taxpayers are required to file an information return if the taxpayer makes aggregate payments of $600 or more to a recipient in the course of a trade or business. However, current law exempts payments to corporations. This bill extends this requirement to payments to corporations – which is estimated to raise $17.1 billion over 10 years.
- The bill <u>better targets the purpose of health Flexible Spending Arrangements (FSAs)</u> by limiting the annual contributions to FSAs to $2,500 per year (indexed to inflation), beginning in 2011. Unlike a similar provision in the Senate Finance bill which does not index the annual limit to inflation, under the House bill, the $2500 annual limit will rise over future years.