



Feb. 16, 2017– At his weekly press briefing, House Speaker Paul Ryan released the House’s plan for repealing and replacing the Affordable Care Act (ACA). “After the House returns following President’s Day, we intend to introduce legislation to repeal and replace Obamacare,” said Ryan.

The Proposal

The proposal document, which incorporates many concepts from the 2016 House Republican’s proposal called “A Better Way,” lays out specific goals of their plan that the repeal-and-replace legislation hopes to achieve including:

- Modernizing the Medicaid program to allow states to innovate with plan designs that will best meet their needs,
- Utilizing state innovation grants to enable states to strengthen and improve their health insurance marketplaces and provide for populations with greater needs.
- Enhancing and expanding the use of health savings accounts (**HSAs**) by increasing the amount of money an individual or family may contribute; allowing funds in the HSA to be used to purchase “over-the-counter” health care items; allowing spouses to make additional contributions and expanding the amount of time HSA funds may be used on certain expenses.
- Providing access to a portable monthly tax credit to buy a health insurance plan that is unrelated to an employment or government program plan. The proposal is based on age, so as individuals’ health needs evolve over time, so will their monthly portable tax credit. The credit would be portable so that it stays with an individual from job to job, state to state, applies to those stay home to start a business or raise a family and can be used in retirement.

To lower the cost of healthcare, the proposal would provide relief from all the ACA tax increases, including:

- The tax on health insurance premiums.
- The medicine cabinet tax.
- The tax on prescription drugs.
- The tax on medical devices.
- The increased expense threshold for deducting medical expenses.

The penalty tax for the individual mandate would be zeroed-out immediately. In addition, individuals who are eligible for the ACA subsidy would be provided expanded options, including access to catastrophic plans, which was prohibited under the ACA. Subsidies for younger individuals would be adjusted to encourage entry into the health insurance market.

A Universal Health Care Tax Credit

The proposal would create a new, advanceable and refundable tax credit to assist with the purchase of health insurance on the individual insurance market. The legislation creates a new code section (36C) to do this. The credit is:

- Universal for all citizens or qualified aliens not offered other qualifying insurance:
 - The credit would not be based on income to help simplify the verification process and expand access.
 - The credit is limited to citizens or qualified aliens.
 - Incarcerated individuals will not be eligible for the credit.
 - The credit will also not be available to individuals who are eligible for coverage through other sources, such as an employer or government plan.
- Age-rated.
- Available for dependent children up to age 26:
 - Taxpayers would be able to receive credits for their dependents—including children up to the age of 26.
- Portable.
- Grows Over Time:
 - Older Americans will receive a higher credit amount than younger Americans, reflecting the higher cost of insurance for older Americans.

The credit can be used to purchase eligible plans:

- Approved by a state and sold in its individual insurance market, including catastrophic coverage.
- Unsubsidized COBRA premiums.

If the full value of the credit is not used, an individual can deposit the excess amount into an HSA.

The credit is not available for plans that cover abortion.

Making Health Savings Accounts (HSAs) More Flexible and Accessible

HSAs are tax-advantaged savings accounts, tied to a high-deductible health plan (HDHP), which can be used to pay for certain medical expenses. The Republicans' proposal contends that replacing the ACA means expanding the number of individuals with HSAs as well as expanding how individuals and families can use their HSA. The policies include:

- **Increase maximum HSA contribution limit:**
 - Current law permits a maximum contribution (both employer and individual contributions) to an HSA of \$3,400 for self-only coverage and \$6,750 for a family coverage. H.R. 1270 (114th Congress).
 - Republican proposals increase the contribution limits by allowing contributions to an HSA to equal the maximum out of pocket amounts allowed by law, which for 2017 is \$6,550 for self-only coverage and \$13,100 for family coverage.
- **Allow Both Spouses to Make Catch-Up Contributions to the Same HSA.**
- **Administrative fix for expenses incurred prior to establishment of HSAs:**
 - If an HSA is established within the 60-day period after an individual's coverage under a high deductible health plan begins, then the HSA is treated as having been established on the date.
 - Any distribution from an HSA used as a payment for a medical expense incurred during that 60-day period is excludible from gross income as a payment used for a qualified medical expense even though the expense was incurred before the date that the HSA was established.

Modernizing and Strengthening Medicaid to Protect the Most Vulnerable

Medicaid Expansion and Putting States in Charge

The proposal would repeal the ACA's Medicaid expansion in its current form. It allows for a "period of stability" to ensure the changes don't pull the rug out from underneath states or patients.

States that chose to expand their Medicaid programs under the ACA could continue to receive enhanced federal payments for *currently* enrolled beneficiaries for a limited period of time, after which reimbursement would revert to their traditional match rates for the expansion population if coverage continues. This transition period would allow individuals to cycle off the program into other coverage sources if the state expansion option ends.

To provide equity, *non-expansion states* could be eligible to receive additional temporary resources for safety net providers during this time frame.

Reforming Medicaid Financing

- House Republicans are considering transitioning Medicaid's financing to a *per capita allotment*. Beginning, in the near future, a total federal Medicaid allotment will be available for each state to draw down based on its federal medical assistance percentage (FMAP).
- The amount of the federal allotment will be the product of:
 - The state's per capita allotment for major beneficiary categories—aged, blind and disabled, children, and adults—multiplied by the number of enrollees in each group.
- The per capita allotments for each beneficiary group will be determined by each state's average Medicaid spending in a base year, grown by an inflationary index.
- Exclusions from the total allotment include:
 - Disproportionate share hospital (DSH) payments, administrative costs.

Giving States the Choice to Receive a Medicaid Block Grant

The proposal offers states a choice to receive federal Medicaid funding in the form of a block grant or global waiver.

- The funding would be determined using a base year and assumes that states would transition the currently enrolled Medicaid expansion population into other coverage.
- Provides states flexibility in the use of Medicaid funds, although requirements for services, benefits, and mandatory populations under current law would continue.

Repealing the ACA's Medicaid DSH Cuts

The proposal would repeal the Medicaid DSH cuts enacted in the ACA. Federal law requires states to make Medicaid DSH payments to hospitals treating large numbers of Medicaid and uninsured patients. Each state received an annual maximum DSH allotment which had been reduced by the ACA.

State Innovation Grants: The Next Generation of High Risk Pools

The proposal envisions the use of new and innovative State Innovation grants that build on the concept of high risk pools which existed in 34 states prior to the ACA. States would be given flexibility to lower health care costs for their more vulnerable populations through:

- Reducing patients' out-of-pocket costs, like copayments, coinsurance, premiums, and deductibles.
- Lowering the cost of providing care to high utilization patients.
- Stabilizing the individual and small group markets.
- Increasing access preventative services, such as an annual checkup.
- Promoting participation in private health care plans.

And if they choose, states may dedicate the funds through a now-dormant high risk pool.

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