

## What is PPACA Anyway? Gregory A. Naylor 4/15/2010

Before talking about the recent health care bill, let me first say that I believe every American should be treated at the Mayo Clinic, should not have to pay anything out of pocket, and that the government should eliminate all taxes. With startling disregard for my opinion, the government has instead passed the Patient Protection and Affordable Care Act (PPACA), one of the largest changes to health care in history. If I discuss this bill with Republican slant, I might alienate the Democrats. If I take a Democrat leaning, I might alienate the Republicans. Let me instead criticize both parties, which seems to unite us all.



If we have a health care crisis, this bill does not address it. Our health care problems are not on the supply side, they are on the demand side. We have the world's best supply of health care, not only in terms of quality but also quantity. We should be sending our excess doctors and nurses around the world, exporting our medical industry, and making good profits while helping others. Instead we consume all of our own resources, and must additionally import doctors and nurses from other countries. Shifting our internal supply of healthcare from one group of needy Americans to another group of needy Americans is like squeezing one side of a balloon to make it smaller.

Nevertheless, squeezing the balloon as hard as PPACA squeezes will have a lot of consequences. Essentially this plan pays for insurance for millions of (younger) Americans by slashing insurance for millions of (older) Americans. Taken alone, Medicare is cut by an estimated \$541 billion over the next 10 years. These 'savings' are then used to pay for an expansion of health care for about 34 million currently uninsured Americans. To generate \$541 billion in savings, Medicare payments to health providers have been cut, and the cost of Medicare to individuals is going up.

Most startling is the new 'inverse cost of living' schedule for Medicare payments. You've heard of pensions that automatically go up by 2 or 3% each year to adjust for inflation? Well, Medicare payments to health providers are now going down automatically by several percent every year. Medicare payments are tied to productivity gains in the economy which have averaged between 2 and 6% over the last 10 years. Over the next 10 years, payments to healthcare providers will go down by several percent per year. These reductions come on top of large initial reductions. **The cuts to Medicare are so severe that Medicare's own actuary does not fully believe that they can be implemented.** This means that either the cuts won't be implemented, or that we have a tidal wave of change coming in the next 10 years. Perhaps both are true.

The long-term care insurance provision (CLASS) almost reads like a joke. Medicare's own chief actuary (whose job is to impartially crunch the numbers associated with any Medicare legislation) estimates that CLASS will be insolvent after a handful of years. And because it provides free long-term care for anyone who cannot afford long-term care, the monthly premiums are estimated to be \$240 per person per month for those who can afford to pay. Would you and your spouse pay \$480 per month for an insurance plan that should be insolvent in a few years? Private long-term care insurance that is actuarially tested can often be purchased for much less than that. CLASS (the acronym for this new plan) might be a last-resort option for some, but it is not a good planning tool for most of our clients.

From a budget perspective, Medicare had to change. As you can see in the chart below, current Medicare spending far exceeds revenue.

## OBAMA'S BUDGET PROPOSAL

**Ins and Outs** | How the 2011 budget breaks down by category, in billions

	Security	Nonsecurity discretionary spending	Social Security	Medicare	Medicaid	TARP	Other mandatory programs	Net interest	Disaster costs
<b>TOTAL OUTLAYS</b>	<b>\$846</b>	<b>\$530</b>	<b>\$730</b>	<b>\$492</b>	<b>\$271</b>	<b>\$11</b>	<b>\$596</b>	<b>\$250</b>	<b>\$3</b>
<b>\$3,728</b>									
<b>\$2,583</b>									
	Individual income taxes	Corporate income taxes	Social Security payroll taxes	Medicare, unemployment and other payroll taxes	Excise taxes	Deposits of earnings	Customs duties	Estate and gift taxes	Other receipts
<b>TOTAL RECEIPTS</b>	<b>\$1,126</b>	<b>\$293</b>	<b>\$674</b>	<b>\$260</b>	<b>\$80</b>	<b>\$79</b>	<b>\$29</b>	<b>\$24</b>	<b>\$18</b>

Source: White House Office of Management and Budget

At the current level of spending and revenue, Medicare was projected to be insolvent in 2017. PPACA pushed the date of insolvency to 2027.

From a planning perspective, individuals must plan to pay their own way, now more than ever. Growth in a portfolio is more important than ever. The CPI will not register one cent of the PPACA changes, and yet the cost of healthcare for a retiree just skyrocketed. CDs and bonds that yield a paltry few percent must not be the only form of savings. Principal preservation must be balanced with growth.

For your further reading pleasure, we copied some of the more notable quotes from Richard Foster's January 2010 Memorandum, and included them as bullet points below. Foster is Medicare's chief actuary. These bullet points are designed to share some of his actuarial analysis, and to give you an idea of the intent and scope of the PPACA.

### EXCERPTS FROM RICHARD FOSTER'S (CHIEF ACTUARY) JANUARY 2010 MEMO

#### GENERAL

- The actual future impacts of the PPACA on health expenditures, insured status, individual decisions, and employer behavior are very uncertain. The legislation would result in numerous changes in the way that health care insurance is provided and paid for in the U.S., and the scope and magnitude of these changes are such that few precedents exist for use in estimate.
- Employer-sponsored health insurance has traditionally been the largest source of coverage in the U.S., and we anticipate that it would continue to be so under the PPACA.
- For the estimated 23 million people who would remain uninsured in 2019, roughly 5 million are undocumented aliens who would be ineligible... [T]he balance of 18 million would choose not to be insured and to pay the penalty (if applicable) associated with the individual mandate.

#### MEDICARE

- Net Medicare savings are estimated to total \$541 billion for fiscal years 2010-2019. Substantial savings are attributable to provisions that would, among other changes, reduce Part A and Part B payment levels and adjust future "market basket" payment updates for productivity improvements (\$226 billion); eliminate the Medicare Improvement Fund (\$27 billion); reduce disproportionate share (DSH) payments (\$47 billion); reduce Medicare Advantage payment benchmarks and extend the authority to adjust for coding intensity (\$101 billion); freeze the income thresholds for the Part B income-related premium for 9 years (\$8 billion); implement an Independent Payment Advisory Board together with strict Medicare expenditure growth rate targets (\$56 billion); and increase the HI payroll tax rate by 0.9 percentage point for individuals with incomes above \$200,000 and families above \$250,000 (\$68 billion).
- It is important to note that the estimated savings shown in this memorandum for one category of Medicare proposals may be unrealistic.
  - The PPACA would introduce permanent annual productivity adjustments to price updates for most providers.
  - Simulations by the Office of the Actuary suggest that roughly 20 percent of Part A providers would become unprofitable within the 10-year projection period as a result of the productivity adjustments.

- A related concern is posed by the requirements that would be placed on the Independent Payment Advisory Board. The Board would be charged with recommending changes to certain Medicare payment categories in an effort to prevent per-beneficiary Medicare costs from increasing faster than the average of the CPI and the CPI-medical. The Secretary of HHS would be required to implement the Board's recommendations unless the statutory process was overridden by new legislation.

## LONG-TERM CARE

- Title VIII of the Senate bill would establish a new, voluntary, Federal insurance program providing a cash benefit if a participant were unable to perform at least two or three activities of daily living or had substantial cognitive impairment. The program would be financed by participant premiums, with no Federal subsidy.
- Participants would have to meet certain modest work requirements during a 5-year vesting period before becoming eligible for benefits. Benefits are intended to be used to help purchase Community Living Assistance Services and Supports (CLASS) that would help qualifying beneficiaries maintain their personal and financial independence and continue living in the community. Benefits could also be used to help cover the cost of institutional long-term care.
- We estimate that an initial average premium level of about \$240 per month would be required to adequately fund CLASS program costs.
- Individuals with health problems or who anticipate a greater risk of functional limitation would be more likely to participate than those in better-than-average health.
- Setting the premium at a rate sufficient to cover the costs for such a group further discourages persons in better health from participating, thereby leading to additional premium increases. This effect has been termed the "classic assessment spiral" or "insurance death spiral."
- The problem of adverse selection would be intensified by requiring participants to subsidize the \$5 premiums for students and low-income enrollees.
- There is a very serious risk that the problem of adverse selection would make the CLASS program unsustainable.

## REFERENCES

[http://www.cms.gov/ActuarialStudies/Downloads/S\\_PPACA\\_2010-01-08.pdf](http://www.cms.gov/ActuarialStudies/Downloads/S_PPACA_2010-01-08.pdf)

<http://dpc.senate.gov/healthreformbill/healthbill52.pdf>

[http://rpc.senate.gov/public/\\_files/whowillbehurtv2.pdf](http://rpc.senate.gov/public/_files/whowillbehurtv2.pdf)

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