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ObamaCare & The Economy

by Peter Cunningham

On October 1st of 2013, enrollment for the Affordable Care Act, also known as Obamacare, will begin. For this reason, you've probably seen a lot of news about Obamacare lately, and it's only going to increase. I've had a lot of clients ask me about it lately—what it means for the economy, and what it means for them. So I thought it would be a good idea to do a quick rundown of the health care law and what its effects might be.

The Affordable Care Act is one of the most politically-charged issues of the century. Some people defend it vigorously; others want nothing more than to see it die. Like everyone else, I have my own opinions on health care reform, but as your investment representative, it's not my political viewpoints you're paying me for. The information below is designed simply to answer common questions I'm hearing, rather than to take a particular stance.

There are two basic ways that the Act may impact you as an investor. The first way is simple: to help pay for it, a plethora of new taxes were enacted at the beginning of this year, many of them specifically impacting investment income. The second way is harder to define. Basically, investors may be positively or negatively impacted based on what effect the Act has on the overall economy. What that effect will be isn't currently known, but some of the possibilities are discussed below.
So without further ado, let's have a Question & Answer session. On the following pages are my answers to some of the most frequently asked questions I've been hearing on the Affordable Care Act.

If you have any further questions, please don't hesitate to let us know. Our door is always open.

Q: What exactly is happening in October?
October 1st is the day that the new Health Insurance Exchanges opened. These exchanges, which can be state-run, federally-run, or jointly-run, are basically online marketplaces where people can shop for the lowest available insurance offered by competing private health care providers.

Oct. 1st basically marked the start of an "open-enrollment" period for people who don't have health care. The period lasts all the way through March 31st, 2014, but the truly big date is January 1st 2014. This is the day that any insurance bought on the marketplace goes into effect. It's also when the "individual mandate" starts.[1]

The individual mandate is a requirement that every non-exempt American have health insurance. Those who are not exempt and do not purchase health insurance will be levied a penalty. In 2014, the penalty will be $95 per person or 1% of income, whichever is greater. In 2015, the penalty increases to $325 per person or 2% of income. By 2016, the number rises tp $695 per person, or 2.5% of income, whichever is greater.[2] The only exemptions are for members of certain religious groups, Native American tribes, prisoners, or those with very low incomes.[2] More specifically, anyone with an income below the threshold of filing taxes (in 2012, $9,750 for a single person and $27,100 for a married couple with two children) will be exempt from the mandate.

Q: How will the Act affect me financially?
For investors, the major impact may be on your taxes. To help pay for the Medicaid expansion portion of the law, the changes I'm about to list went into effect earlier this year.[3] Currently, most people in the United States pay 1.45% of their wages toward Medicare. Employers chip in an additional 1.45%. But individuals earning over $200,000, or married couples earning over $250,000 now pay another 0.9% of their income toward the health-insurance program.

Also, starting in 2013, a new 3.8% Medicare surtax has been levied on all investment income. Investment income is defined as the following:

- All interest earned on investments
- Dividends
- Capital Gains (both long and short term)
- Annuities (except annuities in IRAs or company plans)
- Passive rental income, which means any income earned from rental properties you own.
- Other passive income, as in royalties from publishing a book or licensing a patent

It's important to note that the following items are not considered investment income.

- Wages and Self-Employment income
- Distributions from IRA's, Roth IRA's and Company Plans.
- Municipal Bond interest
- Proceeds of life insurance policies.
- Veterans' benefits
- Social Security income

So any money gained on these items will not be subject to the 3.8% tax. Furthermore, the 3.8% only applies to those whose gross income (meaning wages plus investment income) exceeds $200,000 for individuals, or $250,000 for families.

It's possible, however, that even if your gross income exceeds this amount, you still might not have to pay the tax on your investment income. The 3.8% tax is applied on whatever number is less: your net investment income, as covered above, or the amount of your Adjusted Gross Income over the $200,000/$250,000 threshold. Your Adjusted Gross Income, or AGI, is your total gross income minus certain reductions, like contributions to an IRA.

Imagine this scenario. Let's say you are a single person making 230,000 in modified AGI. That would equal $30,000 over the threshhold. If your investment income is greater than 30,000, then you would only owe the tax on the $30,000. If your investment income is less than $30,000, then the tax would apply to that instead.

Simple, right? Okay, so maybe it's not so simple. But that's why we're here. I want to make sure you understand the changes that have taken place—and more importantly, what to do about them. The secret to healthy finances is good planning, which we can help with. StockCross does not provide tax advice, but we can certainly confer with your tax advisor should there be any negative consequences, and to discuss tax-advantaged investment choices.

Q: How will the Act affect the economy?
When pundits talk about its effect on the economy, most of them are really talking about jobs. Opponents claim that the law will negatively impact an already shaky job market. Because the Act requires many companies to provide employees with health insurance, the thinking is that this will harm those companies' bottom line. If an employer elects to do so, it could mean reduced hiring, and maybe even layoffs. Some argue that forcing companies to provide insurance can be especially difficult for small business owners who just can't afford it.

Here's the way it works. The Act doesn't just have an individual mandate. It also has an "employer mandate." The mandate is really a charge levied against employers with more than 50 employees who do not provide insurance for their full-time workers. Some people fear that this mandate will have an unintended consequence, in that businesses will simply lay-off workers, or move more employees to part-time so they don't have to provide health insurance for them. It's a legitimate concern. There are already stories emerging of businesses nationwide being forced to do exactly that. This isn't just theory, it's fact.

On the other side of the argument, some experts claim that the whole "Obamacare kills jobs" idea is based more on fear than on fact. Their claim is that while some businesses may face cutbacks, it won't be enough to really affect national job levels. That's because 96% of small businesses are already exempt from the employer mandate.[4] Of the businesses that are not exempt, over 90% already offer health insurance benefits.[4] Many businesses also qualify for tax credits to offer coverage, similar to the subsidies mentioned above. So the numbers suggest that relatively few businesses are actually going to be impacted by Obamacare, not enough to stall or reverse economic growth.

Which argument is right remains to be seen. As of this writing, the statistics seem to show that the Act may not be as damaging as some think. So far in 2013, there have been fewer part-time workers than there were in 2012.[5] Some surveys show that hiring among small businesses, at least as of July, is actually picking up. And a more recent survey showed that many companies plan on increasing the number of full-time employees on their payroll.[5] But it's still way too early to know which way the economic wind will blow.

The Act's effects on jobs will be one of the major storylines of the next several months. If the unemployment rate remains stable or continues to improve, so much the better. If the opposite happens, it's possible that the markets might suffer as a result. I suppose the final analysis is really, "stay tuned."

Q: What will he Affordable Care Act do to insurance premiums?
There have long been two competing claims about how Obamacare will affect insurance premiums. Proponents say it will lower premiums. Detractors say it will likely raise them. The data we have so far is incomplete, but at the moment it seems that it will lower premiums. Ten states plus the District of Columbia have submitted data on the bids they are receiving from private insurance companies in the individual and small-group markets. With only two exceptions, every state reports lower-than-expected bids. That means lower-than-expected premiums. Here's what the situation currently looks like:[6]

CBO Estimate $392	Eleven-state average $352	California $368	Colorado $316	District of Columbia $297	New Mexico $298	New York $349
	Ohio $384	Oregon $280	Rhode Island $412	Vermont $440	Virginia $315	Washington $350

This means that the CBO, or Congressional Budget Office, projected that the average monthly premium for someone buying coverage would equal $392. But the average has actually been $352. This is for what's known as the "silver" plan—the second cheapest plan—which is expected to cover 70% of a typical person's medical expenses.

Of course, a lot more data is required before anyone can conclusively say whether Obamacare is making health insurance cheaper or not. But the early signs seem to suggest that it is, and it it making it more accessible.

The reasons why Obamacare might make premiums cheaper are fairly easy to understand. The first reason is the subsidies I mentioned earlier. These subsidies effectively act as a "discount" for people to buy insurance. The other reason is that with more people getting insurance, insurance companies have a larger pool of potential customers. But thanks to certain regulations that come with the Act, these companies really only have one way of enticing customers to choose them rather than their competitors: by lowering prices.

So there you have it. Of course, there's a lot more to the Act that we just don't have space to cover, but hopefully you have a better picture of the broad strokes. This is a complex and controversial topic. The truth is that no one really knows what the outcome will be. It might be a raging success. It might be a dismal failure. I suspect that, like most things, the end result will be somewhere in the middle. But these are some of the questions that are dominating America today. StockCross will continue to monitor the situation and we are available to assist you in any way we can. Please don't hesitate to contact us.

1.http://obamacarefacts.com/obamacare-health-insurance-exchange.php

2.http://obamacarefacts.com/obamacare-tax-penalty.php

3.http://money.cnn.com/2010/03/22/news/economy/medicare_tax_increase/index.htm

4.http://www.cbsnews.com/8301-505143_162-57595475/is-obamacare-a-job-killer/

5.http://www.cbsnews.com/8301-505143_162-57602267/despite-obamacare-execs-still-expect-to-keep-hiring/

6.http://aspe.hhs.gov/health/reports/2013/MarketCompetitionPremiums/rb_premiums.pdf

Broker Spotlight

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