"Houston, we have a problem!"

An outsider's view of the damage the

Affordable Care Act

will do to America and the Baby Boomer Generation

How Obamacare Will Destroy The Baby Boomer Generation

By Bill Broich and Phyllis McGavick

Disclosure: It is important to understand exactly what *ObamaCare* as a term means. Originally the name of the legislation was the *Patient Protection and Affordable Care Act* (PPACA). When amended after 2010 the name was changed to the *Affordable Care Act* (ACA), the term *ObamaCare* was attached as a synonym. There are many pros and cons to this act and depending on what is important to you, the *ACA* could be positive or negative. One thing is for sure, the *ACA* is an evolving and moving target, I feel premiums and taxes will increase and access to services will shrink over time. My article is focused on how *ObamaCare* will affect those over age 65 and dependent on Medicare for health care. I am not an expert on this legislation; the report below is my personal opinion and personal evaluation of the *ACA*. Never make decisions based on just one source, always ask for help from licensed and authorized professionals. I have enclosed numerous links at the bottom of this report to help you expand your search for information.

We were neither pro nor con Obamacare when we started our research. Our personal political views are private. What we are going to explain to you has nothing to do with politics but how the *Affordable Care Act* will affect those of us on Medicare, primarily, the Baby Boomer Generation.

As we have dug into this bill our position began to evolve, not because we don't want lower income or people with medical conditions to have access to health care but because we learned how this was all to be financed. It was financed using misinformation based on concepts that have never been tested in reality. The financing concepts behind the *Affordable Care Act* are moving to the dark side. The system used to finance this bill is built on a pile of sand with the base holding it all up slowly eroding. It is only a matter of time before the entire bill will need to be refinanced at a huge cost to participants, or more likely, the federal government.

The impact of the cost being passed on to those who can afford it least is, to us, difficult to understand. It could be numerous generations before anyone or any part of our government can get their arms around this growing monster. I will show you what I mean.

First of all, I would like to explain why we wrote this paper and how it has changed our personal approach to our annuity business. We as agents work hard to teach our prospects about the importance of having enough guaranteed funds in retirement. My approach has always been to layer our guaranteed income on top of Social Security and any pension. The balance of a prospect's funds needs to be in some vehicle that would help offset inflation.

What has been left out of the mix is what is currently happening to us, medical expenses. There can be huge exposure to medical costs when we Baby Boomers can least afford it. The design of the *Affordable Care Act* is based on everyone doing exactly as planned. People must enroll and; pay their premiums, medical professionals must take the reimbursement offered, and any shortage must be absorbed by those in need of the services.

First of all, please read our disclosure; we are not experts. When we first got the idea of writing this paper, we did so because of a situation that happened to me. I came face to face with the realities of being on Medicare and how it actually now works. We will explain later.

I thought that if this could happen to me, it could happen to anyone who is on Medicare. As we dug deeper, we realized that this topic is immense and no one single person could ever fully learn or understand it all. It is a giant nasty collection of new rules with new and evolving rules and interpretation of the rules. As it evolves and grows more and more, regulations are added to the bill. So far the Obama Administration has issued

20,000 pages of regulations "associated" with the new law, with new pages of regulations being added daily even after the *ACA* was signed into law. Since the law became a law in 2010, in one single day, 828 pages were added. It is obvious that more rules and more regulations will be added based on the courts and the administration view of the Act.

I took the time to download the entire bill and browse through it. The problem isn't just the Act; it is the administration's (and court's) interpretation of the Act. This monster of a bill will never be tamed for the next few generations; I think courts will be deciding parts of it based on a new and different interpretation. With each new interpretation will come more regulations and more need to garner any understanding.

Nothing in our current climate will affect our lives more than this Act. We have changed our approach to retirement planning and our approach to budgeting funds for future medical care expenses.

The *Affordable Care Act* is an evolving, growing monster.

Please understand that we could have written a thousand pages on this topic, instead of that, we have chosen to try and help you understand how we are affected and how our prospects are affected by this legislation.

By doing so possibly we can help you reach out to our fellow Baby Boomers in a firmer way to assume this liability into their planning and to understand how important annuities are to the future survival of the Baby Boomer Generation.

One last point, our sources for this paper were not one sided, we found plenty of information from Pro *ACA* as we did Con *ACA*. What we have written is what we have gleaned ourselves. In our research we have tried to keep a balance.

The last point we would like to make regarding the effect of the *Affordable Care Act* will have on America is far deeper than just the changes planned on Medicare. The reach is much further and much more devastating. It will include future changes in how Long Term Care is paid and how the Baby Boomer will plan for retirement.

There has never been any risk within America's borders that will change and dramatically alter the quality of life more than the *Affordable Care Act*. This includes wars, depressions and political influence.

The basic program for health care coverage for seniors now faces its worst nightmare.

For over 100 years the discussion of a national health care system in America has been both a hot and cold discussion. As president, Theodore Roosevelt first suggested the idea of a health care system that would be available for all Americans. In fact as a candidate for president, a national health care plan was part of his campaign platform.

The idea laid dormant until after World War II when President Truman suggested to congress they consider a national approach to health care coverage. His idea was coverage that would include both hospital and doctors' visits but also a wellbeing approach to individual care. President Truman's effort was unsuccessful and once again the plan was dormant, for another 20 years.

In 1960 John F. Kennedy was elected president; sweeping into congress with him came a democratic majority. His campaign slogan *"We Can Do Better"* signaled to America that change was coming. Change was in the approach to health insurance. A national study conducted in 1961 found that 56% of Americans over age 65 had no insurance coverage. What began with President Kennedy was finished by President Lyndon B. Johnson in 1965 when legislation was passed providing for the creation of health care

for those 65 and over. Medicare was born. Initially over 19 million seniors signed up for coverage in the first year.

Since 1965, Medicare has provided health care protection with one blanket policy covering 100% of people over age 65. It has worked.

In the past 50 years the plan has evolved and changed with adjustments for expansion and reductions in some benefits. In the 1970s and 1980s, Medicare was expanded to provide more benefits for longer term disabilities and the creation of Medigap also known as Medicare supplement insurance.

In 2003the *Medicare Prescription and Modernization Act* added additional options for prescription drug benefits. This Act increased the availability to subsidize the cost of prescription drugs to the vast majority of Medicare enrollees.

The *Kaiser Foundation* in a report at the end of 2014 said Americans enrolled in Medicare numbered 49,435,610. Fast forward to the upcoming tsunami of Baby Boomers reaching the age of 65 and gaining the right to enroll in Medicare. At over 10,000 enrollees a day, the system currently in place has every possibility of a huge financial overrun.

In 2013 Medicare benefits equaled 14% of the federal budget.

Costs are increasing…..By 2020 it is estimated the percentage of our federal budget could increase to *19% and by 2030, nearly 30%* of total federal expenditures.

What has happened under the *ACA* is to make numbers work, reimbursements for medical care paid to providers were lowered, and premiums increased causing the Perfect Storm: Increase insurance premiums of Part B, decrease reimbursements for medical expenses and pass the cost to the enrollee (ME) , offer health insurance to lower income participants.

Our report is not about the any other group except those on Medicare. I have no real research on how the other parts of the *ACA* work. My focus is Medicare enrollees.

A recent quote by the Obama Administration stated that the increase in the number of enrollees was significant but not enough to endanger the program "*thanks in part to "cost" savings embedded in the Affordable Care Act.*"(Obamacare)

The plan was simple, reduce the cost of reimbursements paid to medical providers and create a fund to allow those with no insurance coverage to obtain it (or medical impairment) to be able to afford health care at a reasonable cost. (Plus tax increases and other fees)

Take money from one pocket and put it in the other pocket, that is about as simple as it gets. The *Affordable Care Act* is doing just that by gradually reducing the amount of government spending for medical care.

Along with the magic of the moving money, came another sleight of hand, make those that can afford more, pay more.

I am a perfect example, I am an annuity salesperson and, because I am still working, I make more money than the allowable limit; I must pay the extra premiums (also known as the Cadillac tax).

Our cost for Medicare including Part B and Part D is in excess of $1150 a month. We worked just as hard as the guy from the factory and I have always paid in the maximum to social security, why should I have to be targeted for this extra premium?

Fortunately I have so far been able to afford it. But what if someone was just on the cusp and was forced to the higher amount?

And what if they lower the income requirement to obtain more premiums?

The government controls the payment of social security retirement benefits so it is in the perfect position to know where to extract additional premiums (Cadillac) to help with the *Affordable Care Act* cost.

They take the extra from the Social Security check, they control it all.

Most enrollees in Medicare Part B (supplemental insurance) pay $104.90 per month, but if your income is higher than $85,000 then a new premium is calculated for you. The additional cost on top of the $104.90 can be up to $335.70 a month. This is based on earning results and the fact that the enrollee has already paid into the system is completely ignored. Those earning more, pay more.

Naturally the problem becomes clearer. If you reduce the amount reimbursed to the health care provider, the obvious thing will happen. Health care cost increases are not passed on to Medicare, they are passed to the enrollee. The medical provider also faces increases in expenses which is a natural course of business. In 2016 a small increase is set to offset medical costs charged by the provider, that of course is even less than the set decrease in medical reimbursements estimated when the *ACA* was first adopted.

What will happen next is the amount of income necessary to reach the “Cadillac tax” will decrease. In 2017, it will drop to $88,000 for joint filers. This will cause the cost of insurance to increase by a variable of 2, as income raises, so does the variable.

The cost or part B increases, the less the retirement funds available. Then add the cost of reimbursement shortages and you are facing a large shortage in retirement income.

Reimbursement shortage means the patient pays. Most on Medicare are retired, where does the money come from?

Last week the SS administration announced that there would be no COLA increase for retirees in 2016 and yet Medicare premiums are increasing.

Now consider the government's approach to offsetting the increased costs of living expenses for those now retired and receiving social security. Last week the Social Security Administration announced that there would be no COLA increase for retirees in 2016 and yet Medicare premiums are increasing.

For Baby Boomers now retired and receiving fixed income, the squeeze is on. Income is not increasing and yet the financial expense of being retired is increasing. No COLA and yet even premiums paid for Medicare Part B are being raised. In a recent article in *Kiplinger Magazine* it was stated the increase for many Americans in 2016 for Medicare Part B could be as high as 52%. Most (30%) Part B payers will see a lesser increase of 15%, still a huge increase in expenses for those on fixed incomes.

Kiplinger article: http://www.kiplinger.com/article/insurance/T039-C000-S010-big-price-hikes-coming-for-medicare-premiums-2016.html

Without a raise in Social Security benefits, higher Medicare fees couldn't be charged to most folks. So the larger increase would apply to about 30% of Medicare beneficiaries:

- those who enroll in Part B in 2016
- people who don't have their premiums deducted from Social Security payments
- individuals with annual incomes above $85,000
- and people eligible for both Medicare and Medicaid.

The medical provider has three options:

- ✓ Absorb any increase of operational expenses
- ✓ Bill the Patient for any Unpaid Medicare costs
- ✓ Stop being a Medicare provider

Absorbing the Increase in Operational Expense

To tell a health care provider to provide medical services and then say the amount received for this service is going to decrease while operational expenses increase will have a severe negative effect on the provider. That in essence is what has happened via the Medicare reimbursement system. The *ACA* made medical providers take less for services provided in order to make sure enough funds were available for those who could not qualify for health insurance either due to medical reasons or financial hardship.

Quoting health care insurer Aetna, *"total health care spending in the United States is expected to reach $4.8 trillion in 2021, up from $2.6 trillion in 2010 and $75 billion in*

1970. To put it in context, this means that health care spending will account for nearly 20 percent of gross domestic product (GDP), or one-fifth of the U.S. economy, by 2021."

Many consumers and small employers are struggling to afford their health insurance premiums. Some employers are not able to offer health care coverage at all. For firms with fewer than 10 employees, only 50 percent offered coverage to their workers in 2012.

The cost of health care spending has slowed to an annual growth rate of 3.9% as of 2010, which has been the lowest in a decade. But facing the lowering of medical reimbursements from those insured with Medicare, the budget is straining and the only possible direction is for more expenses to be passed on to the enrollee or the complete avoidance of Medicare patients.

PwC's *Health Research Institute* projects a growth rate of 6.8% for medical costs for all patient classes for 2015. The increase to those insured due to the *Affordable Care Act* have pushed overall medical expenses higher, with more patients searching for more care. More patients accessing care has caused an expected spike in overall medical expenses. The question remains, will this increase be just a spike of an indication of the direction of medical care in America?

To help curtail medical expenses being absorbed by health care insurers, a move to higher deductible plans seems obvious. Where does that move leave the Medicare enrollees? Medicare itself plans no actual changes in the cost of all plans of insurance for its enrollees (until congress directs). But what is planned is the percentage of reimbursement paid to medical providers is going to be a lower percentage of the medical care bill.

Common sense dictates that people in the medical industry are not working for charity, they are working to cover expenses and to provide a living for themselves and their employees.

To accomplish this means only one thing, unpaid medical expenses for Medicare enrollees will be charged to the end user of the services, the Medicare patient.

I have a personal story about being affected by the reimbursement reduction in Medicare. After 25 years, my personal physician retired, a younger doctor has assumed his practice. Over a period of a few months, I was informed that I would need to go through a process called "new patient induction" even though his office and staff was exactly as it had been for the past 25 years.

I called and made the appointments scheduled in a couple of months. About 30 days before the appointment, his office called and asked how I wanted to cover the shortage for my upcoming physician appointment?

What? I asked what she was talking about and was told that the procedure of new patient induction carried a fee of $600 and Medicare would only cover $155 of it.

How did I want to pay the difference, credit card or check?

My experience of how the *ACA* changed Medicare was an expensive experience, $455 worth of experience. Imagine that on a national scale. Would it mean that another retiree might not be able to see their physician? Just think of how this change in regulations passes on the financial responsibility for medical care exactly at a time when retirees can least afford it.

Recently a large financial services company suggested that each retiree beginning at age 65 and using Medicare as their chosen health insurance protection vehicle could face an out of pocket expense of over $240,000 during their lifetime.

For a couple that is nearly $500,000.

The amount needed is expected to be a huge factor in determining how much should be set aside in a savings vehicle to cover this projected cost. What is unknown at this time is the potential increase over the years as the expense of general medical services increases. Some experts suggest an annual increase of 3% to 8% is not excessive.

The amount of spending by Medicare per enrollee has been reduced but the overall spending has increased due to the expanded number of Medicare enrollees. The reduced amount spent by Medicare per enrollee has reduced but the cost of care has not, the end result is absolute, more out of pocket for each enrollee.

The end result is the retiree's share of escalating Medicare costs and costs not covered by Medicare. In essence, once the medical participation rates are covered by health care providers from Medicare, you are on your own.

According to the *Department of Aging*, the projected annual rate of growth for health care expenses for the next 10 years is 5.8%.

Remember, no COLA increase in 2016.

Where will this money come from, your retirement accounts? Your savings? If you need to transfer funds from your retirement accounts to cover medical expense, what effect does that make in your retirement income?

The Affordable Care Act of 2010 stated it would help control the increase in medical expenses by controlling how much was being reimbursed for medical care costs. Instead, it has worked in reverse; medical expenses are rising, and the amount of out of pocket costs paid has followed along.

The *ACA* does pay less, but all that equates to the end user (Medicare enrollee) will pay more.

How much more? It is estimated that Medicare (via *ACA*) will only cover 62% of medical costs, which means that 38% will be paid for out of pocket.

These numbers are vital to you 62%---38%.

Congress was correct in one area, the *ACA* did reduce the amount of medical costs it was paying per enrollee via Medicare, of course, and the balance of the responsibility was shifted to the retiree using the system.

The *ACA* has reduced the overall cost per patient, simply by transferring the financial exposure from Medicare to patient.

Stop Being a Medicare Provider

Increasingly, medical providers are making the decision to not handle Medicare patients any longer; instead they are offering the services to those over age 65 with their true cost of services being billed to the patient.

The Medicare enrollee has no viable option of asking Medicare for reimbursement and is faced with a choice, pay or go. With the advent of the *Affordable Care Act,* changes in how medical reimbursement was made allowed many providers to opt out of the system. For many it was the only viable option, in areas where competition for medical personnel is intense, higher salaries and benefits were mandated. The options were simple, charge for services. Those that couldn't or wouldn't pay are being sent to other providers.

The Medicare system made it easy for physicians to opt out; they even have provided the forms on line, so it's easy to do. The simple truth for physicians is: "*It is easier to opt out of Medicare than to remain in Medicare."* Along with the lowering of reimbursements came a new system for filling out the needed paperwork, paperwork necessary to be reimbursed. It has been suggested that a physician practicing alone in an office needs two nurses and two Medicare processers.

Thousands of physicians have already opted out of the Medicare system.

Because of the changes in reimbursement, Medicare endangers seniors, punishes the better doctors with massive paperwork and restrictions, and limits access to physicians in a timely manner.

Does this sound like the *Veterans Administration* formula for health care?

The current onslaught of physicians leaving the Medicare system is merely the tip of the iceberg. According to the *Wall Street Journal,* 9,539 physicians opted out of Medicare in 2012, an increase of 35% over the previous year. The decrease in reimbursements are cited but also the increased work needed to be processed by the medical provider just to offset the lower of the reimbursements. As an example, the Medicare reimbursement for a physician to spend 15 minutes with a patient is $58. That translates to a doctor having to see over 30 or more patients a day just to make everything work.

What does all this mean? It means that physicians are leaving the Medicare system and looking for private pay patients.

It would be informative to know exactly how many physicians have actually opted out of Medicare but that information is not available. It is a closely guarded secret with Medicare as directed by the current administration.

Not disclosed.

Current legislation is in process which would require Medicare to release the number of physicians who have left the system. That legislation is still a long way from becoming law.

An article in CNSNEWS, reported that the actual number of physicians who have opted out of the *Affordable Care Act* is over 214,000. This includes all age levels not just Medicare. In California it is estimated that 70% of physicians will not participate in *Covered California;* reasons vary, but generally it is primarily over money. *Covered California* is the bottom dollar reimbursement with rates typically below other systems.

There is also fear that charges left unpaid by *Covered California* will go unpaid because many of the insured in this program are of low income means and cannot cover the high deductibles in their policy. Lastly, fear of accepting a patient and funding later services are not covered for the simple reason the premiums were not paid. It is estimated that

over 1,000,000 in force health care plans have already been cancelled for nonpayment of premiums nationwide.

Obama Administration will not make public the number of physicians who have opted out.

Here is a link regarding recent opt out physicians and the reduction in reimbursement medical expenses:

Click here: Center for Medicare and Medicaid Services. The report from the Centers for Medicare and Medicaid Services projects that physician reimbursement rates will drop to "55% of private health insurance payment rates in 2013."

What Next?

It is as clear as a blue summer sky;

Medicare has been changed by the emergence of the *Affordable Care Act*. The lowering of reimbursements, fewer physicians accepting Medicare and the need for additional

health services as we age all point to one terrible conclusion. This system is going to move to mostly a private pay system.

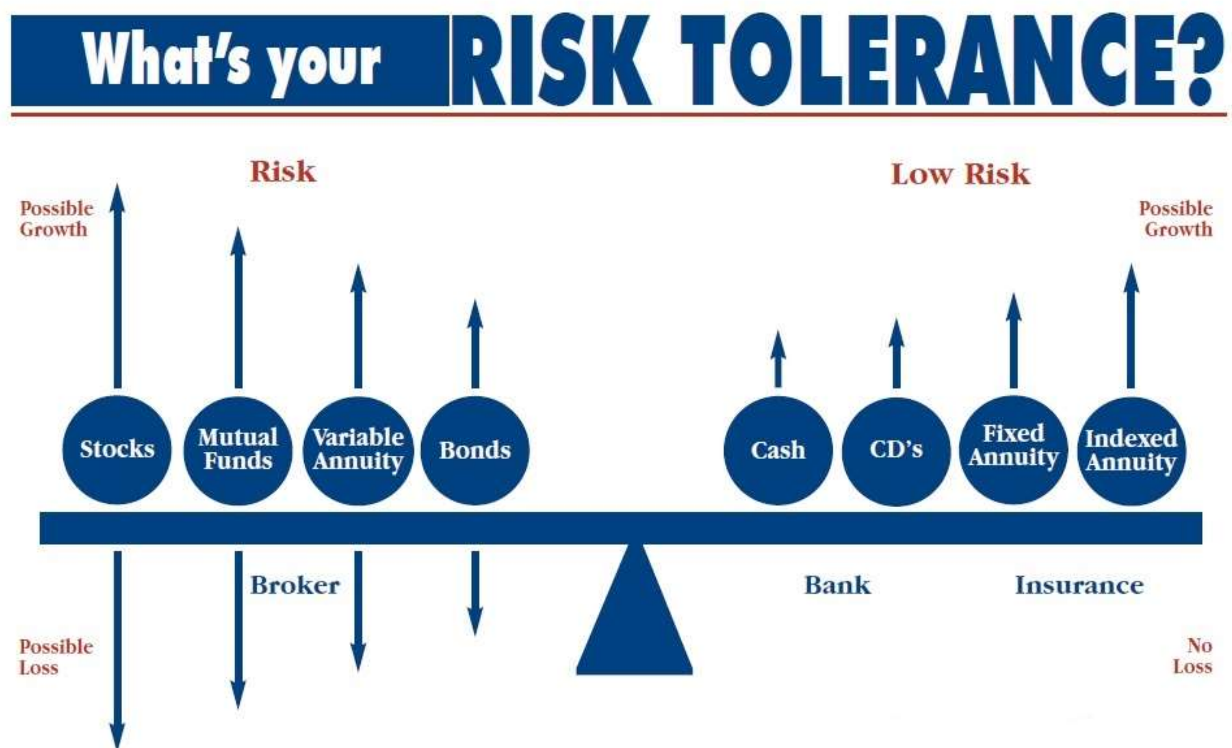
Seniors who have not budgeted enough funds to manage their out of pocket expenses are going to be moved to the brink of bankruptcy.

The *Affordable Care Act* is here to stay and it will continue to cast its shadow on Medicare. Dealing with reality and knowing the situation is not changing for the better will help you make tough decisions.

What to do? The first step is to be honest with yourself about health, finances and your desired goals. Take a complete inventory of your available assets, your current and possibly future income and determine how best to allocate these assets. Faced with the uncertainty of our health future as well as the uncertainty of our financial future, it might be time to reorganize assets in a manner that makes more sense, moving away from risk and towards safety.

Use this chart

Here is a simple chart that shows levels of risk, which may help you evaluate your current assets.



If your assets are more off balanced to one side or the other, it might make good sense to considering reallocation. There are two fundamental problems with asset allocation.

- Too much money at risk could indicate potential exposure to portfolio losses, losses that you might not be able to recover from. T
- Too conservative of an asset allocation could mean that inflation could damage future retirement plans.

There is rule of thumb about risk evaluation.

Risk too big or too important to be self-managed should be passed to a risk bearer.

A risk bearer is an insurance company.

Learning and understanding this information is now an essential part of the planning process.

Understanding the medical cost out of pocket expense, using the safety and security approach to this planning, allows for the use of annuities whose sole source of existence is to cover excess medical expenses.

Bill Broich and Phyllis McGavick are authors and contributors to financial blogs and publications. Their best known book: *Safe Money* has sold over 50,000 copies and is considered a prime source for information about lowering risk. More information about them and their writing can be found at: **www.annuity.com.**

Additional information about the *ACA* from *Senior Living* and other sources:

http://www.seniorliving.org/healthcare/how-obamacare-affects-seniors/

Other sources

http://www.hhs.gov/healthcare/rights/

http://www.medicaid.gov/affordablecareact/affordable-care-act.html

http://www.medicaid.gov/affordablecareact/provisions/financing.html

http://www.irs.gov/Affordable-Care-Act/Affordable-Care-Act-Tax-Provisions

http://obamacarefacts.com/obamacare-pros-and-cons/

http://obamacarefacts.com/health-care-reform-timeline/

https://www.ehealthinsurance.com/resource-center/affordable-care-act/history-timeline-affordable-care-act-aca

Like all important decisions it is advised you seek licensed and authorized professionals before taking action. Be careful and be informed.

A good source for basic legal information is:
www.elderlawanswers.com

Disclaimer: Important decisions regarding investing, taxes and retirement planning should be considered very carefully. Always use a licensed and authorized professional when considering important decisions. The content of this paper is based on our interpretation of the effect the *Affordable Care Act* will have. We are not authorized to give legal, tax or investment advice nor are we authorized to sell any form of security. Please proceed with caution and consider every possible option prior to making any important or final decision.