How the Obama Administration May Affect Your Business

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A new White House administration always spells change of some sort — and nowhere will that change be felt more this time around than in the financial sector. Specifically, President-elect Barack Obama has made certain proposals to reform estate taxes, health insurance, and the Medicare and Medicaid systems, along with alluding to changes within the long term care industry. But how will you see your business change as a result over the next four years?

“We believe that, given the current financial constraints, there will be modest changes, but not a complete overhaul,” said Stephanie Cohen, CEO of Golden & Cohen, a health care benefits firm in Gaithersburg, MD. “Additionally, we think that carriers and employers may take proactive steps. You might see potential solutions emerge from the major players in the health insurance environment. Change is inevitable; the degree is uncertain.”

It is unknown which Obama directives will be implemented and precisely how, she said. Nonetheless, it is clear that there will be uncertainty in the insurance market — at least while new policies are being worked out.

Estate planning

The major issue affecting estate planning practices will be the estate tax exemption. Obama plans to keep the current estate tax exemption of $3.5 million and the top rate tax of 45 percent, but he also wants to make the estate tax exemption transferable from one spouse to the other, simplifying estate planning and allowing for fewer hassles. Other aspects of estate planning, such as the system for valuing inherited property, would remain the same.

The estate planning law was changed in 2001. As it stands, the tax-free amount somebody could bequeath was $1 million until 2009, when it increased to $3.5 million. This is set to be repealed in 2010; in 2011, the amount would have reverted to $1 million. Obama’s election, however, makes that unlikely.

Bernard A. Krooks, founding partner of Littman Krooks LLP in New York, pointed out another proposal that will most likely be changed by Obama. Currently, in order for a married couple with $7 million to avoid a tax penalty, each would need to have $3.5 million in their own name. For tax purposes, one spouse with $7 million would be penalized, so the amount needs to be split between the couple. There is no tax on the asset transfer between husband and wife, but estate taxes need to be paid if one partner has more money than the other (beyond $7 million in the aggregate). Obama has proposed not penalizing people who do not set up a credit-sheltered trust.

“Those proposals were made on the campaign trail before Wall Street went south. [Obama’s] not come out on record to affirm those proposals, so I think, with all his other propositions, it’s going to be very difficult for him to honor his estate tax proposal,” said Krooks.

Health insurance

Under Obama’s biggest proposition, the employer-based health care system would remain intact. As individuals who are currently uninsured sign up for a national health care plan, hospitals and other providers could see an

increase in revenue as coverage is expanded.

Another group of individuals currently insured through commercial plans would likely switch to the government-subsidized plan, according to Angela Humphreys, a health care lawyer and partner at Bass, Berry & Sims.

“It is anticipated that this could result in providers seeking higher reimbursement from commercial insurers, as a shift in the payor mix may lower profit margins,” Humphreys said.

Karin Landry, managing partner of Spring Consulting Group LLC, points out that Obama’s proposed changes in health care are aimed at the uninsured. A National Health Insurance Exchange (NHIE) would sell insurance plans directly to those who did not have an employer plan or public coverage.

This could decrease agents’ revenues if they focus on group health coverage, notes Landry.

Obama plans to propose the creation of mandated health insurance for children through fair premiums and minimal copays for deductibles, which would encourage employers to pay for coverage in some capacity or be penalized financially. Portable health care would allow movement from job to job without changing current health care coverage.

Technology, such as electronic medical records, will also become the norm, pushing providers and systems to reach better levels of care and recordkeeping in disease management and LTC coordination. Landry notes that technology could enhance client relationships by preventing errors and creating savings.

Lower premiums will no doubt entice more Americans to buy health insurance. However, the benefit to insurance agents selling health insurance is unclear at this point.

Obama’s plan would promote increased competition among insurers and favor guaranteed issue and community rating. This could rewrite the current rules for insurers. Also, the proposed national health insurance exchange may reduce the role brokers play in the process, notes Humphreys.

Long term care insurance changes

Long term care insurance (LTCI) has not been specifically addressed by the president-elect; however, many proposed changes would affect long term care in general. Obama wants to give seniors more choices about their care by reducing bias toward institutional options. He also hopes to improve the quality of elder care by increasing training for nurses and health care workers, said Landry.

Much like with Obama’s vision of health reform, the future of long term care is subject to the details of implementation. If enhanced LTC products are to be offered through the traditional distribution channel, agents selling coverage may enjoy broader consumer interest. However, if they are to be distributed through a federal scheme, agents selling LTC are likely to experience substantially diminished consumer interest, Landry added.

Medicare/Medicaid

Obama proposes establishing a new public program similar to Medicare. This program would apply to those younger than 65 who do not have access to an employer-paid plan and do not qualify for other government programs, such as Medicaid. Additionally, he hopes to expand Medicaid eligibility and negotiate for lower drug prices for Medicare, making health care more affordable for seniors.

“Through fundamental health care reform, President-elect Obama hopes to improve the quality and efficiency of the system,” said Landry. “Such reform would include requiring companies to send Medicare beneficiaries a

full list of drugs and fees, allowing them to better compare plans and reduce out-of-pocket costs."

In addition to market-specific measures, Landry pointed out, the regulatory structure of the insurance industry may change. The system is currently regulated on a state-by-state basis. Regulation proposed prior to the presidential election would, if passed and signed into law, offer insurers a choice between remaining state-governed or becoming federally regulated. Supporters of federal regulation cite onerous compliance costs for multi-state insurers and accuse the state system of stifling product innovation. Opponents of federal regulation worry that the proposed regulatory body will simply spawn a new bureaucracy.

Recent financial trouble for major banks and insurers and subsequent federal bailouts have reignited the debate over a state versus federally regulated insurance system. One thing is certain, said Landry: A more austere regulatory environment going forward.

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