

Pennsylvania Takes the Lead with New Federal Health Care Tax Credit Program

On March 24, approximately 95,000 people who depended on Bethlehem Steel Corporation for their retirement health care coverage were left without benefits when a bankruptcy court in New York approved a request by Bethlehem Steel's management to end health benefits for its retirees and former workers. The decision became effective April 1, 2003.

While the majority of the retirees are eligible for Medicare and can enroll in Medicare + Choice and Medigap plans, nearly 20,000 retirees who are under the age of 65 must find new health care plans and most likely will have to pay for it themselves. This can be expensive and for many, too costly an option.

Because of quick and well-coordinated action by the Rendell Administration, the United Steelworkers of America, Pennsylvania's Blue Cross and Blue Shield plans, and the federal government, many of these retirees and dependents now have the option to join a state qualified health plan to offset some of the costs for health care coverage through a federal tax credit program.

In 2002, the federal government took steps to help workers displaced by foreign competition pay for health insurance through the Trade Act of 2002. Signed into law last August, the Trade Act created the Health Coverage Tax Credit (HCTC), a federal tax credit, to assist displaced workers with the cost of health insurance. Administered by the Internal Revenue Service in cooperation with the Departments of Treasury, Labor, and Health and Human Services, **the HCTC covers 65 percent of the premium amount paid by eligible individuals for qualified health insurance coverage for themselves and their dependents.**

The program began on December 1, 2002, allowing those who were eligible in December to claim the credit on their 2002 taxes. Until August 2003, eligible individuals first must pay the full cost of their insurance out-of-pocket and then must claim a tax credit on their 2003 tax return to receive 65 percent of the premium back. However, beginning on August 1st, eligible individuals will have 65 percent of their premium costs paid in advance – in effect advancing them the tax credit from the federal government on a monthly basis. This means that they will only be responsible for 35 percent out-of-pocket costs, greatly reducing their up-front expenses.

As of 2002, the federal government estimated that as many as 260,000 individuals nationwide would be eligible to qualify for assistance through the Trade Act. With the recent bankruptcy of Bethlehem Steel Corporation, it is estimated that as many as 50,000 Pennsylvanians will be eligible for this new tax credit, making Pennsylvania the state with the largest number of eligible individuals in the country. For this reason, Pennsylvania's state government is playing a critical role by ensuring the availability of coverage for individuals, making eligible individuals aware of the program, and increasing the options available to them. In fact, Pennsylvania is one of the first states to offer help to those eligible for this federal tax credit.

Eligibility - There are two ways that an individual can be eligible to receive the tax credit under the HCTC program. First, Trade Adjustment Assistance (TAA) participants who are receiving certain TAA benefits and who do not have other specified coverage, including Medicare, and cannot be claimed as a dependent on another individual's tax return, are eligible. The

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TAA program is a federal program administered by the U.S. Department of Labor that provides aid to workers who lose their jobs or whose hours of work and wages are reduced due to the effects of international trade and foreign imports. TAA offers a variety of benefits and reemployment services to assist unemployed workers to prepare for and obtain suitable employment.

A second way to be eligible for the HCTC program is through the Pension Benefit Guaranty Corporation (PBGC). Beneficiaries of the PBGC who are at least age 55, but who are not entitled to Medicare or do not have other specified coverage, and cannot be claimed as a dependent on another individual's tax return, are also eligible for the tax credit. PBGC is a federal government agency that insures and guarantees payment of basic pension benefits earned by workers and retirees. Its operations are financed largely by insurance premiums paid by companies that sponsor pension plans and by PBGC's investment returns. Because Bethlehem Steel's pension fund is being turned over to the PBGC, most of the company's retirees who are not eligible for Medicare will qualify for the tax credit.

Qualified Health Insurance – In addition to either being an eligible TAA participant or a PBGC beneficiary, workers and retirees must enroll in a "qualified" health plan. According to the HCTC program, qualified health plans include: COBRA continuation coverage plans, non-group/individual health insurance that began 30 days prior to separation from employment, and other state qualified health plans. In addition, spousal coverage plans qualify if the employer pays for less than 50% of the premium.

COBRA. COBRA is a federal continuation-of-insurance program that allows displaced workers to continue their same health care coverage. Although a company's COBRA obligation ends once it terminates all its medical plans, the Steelworkers Union recently negotiated to maintain COBRA coverage through September 30, 2003. While those former steelworkers under 65 who choose COBRA are eligible for the tax credit, this option is both expensive and temporary.

Non-group/Individual Health Insurance. An individual may purchase an individual plan from a company for themselves and/or their dependents. This type of insurance qualifies under the Trade Act, but is eligible only if the individual enrolled in the plan at least 30 days prior to separation from employment. Therefore, displaced workers purchasing individual insurance after the separation would *not* be eligible to receive the tax credit. Moreover, individual health care insurance can often be much more expensive than group health plans and therefore is not an option for many people.

State Qualified Health Plans. Under the Trade Act, a state may elect to offer qualified health insurance through a state program or a state "arrangement" with an insurance company or other plan sponsor. This is where Pennsylvania's well-coordinated response makes the state a national leader. As a result of the aforementioned team effort, all four of Pennsylvania's Blue Cross and Blue Shield plans are now offering qualified coverage to Pennsylvanians eligible for the federal tax credit. Being one of the first states to offer qualified health plans to help people take advantage of this new federal tax credit, Pennsylvania is a model for other states working to implement the HCTC program.

For more information on the Health Care Tax Credit program, visit the Pennsylvania Insurance Department's Web site at www.insurance.state.pa.us or the HCTC program Web site at <http://www.irs.gov/individuals/index.html> (select *Health Coverage Tax Credit (HCTC)*). Individuals may also contact the HCTC program Customer Contact Center directly at 1-866-628-HCTC.

Individuals who are potentially eligible to receive benefits should expect to be notified by the Pennsylvania Department of Labor and Industry or the PBGC. In addition, the HCTC Program Customer Contact Center can provide further eligibility information for individuals.

For more information about PHC4 and its reports, go to www.phc4.org on the Internet or contact PHC4 at (717) 232-6787.

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