APPENDIX I
SUMMARY OF THE LEGISLATION

TITLE I: HEALTH CARE REFORM

- **Repeal of Employer Exclusion for Group Health Insurance.** Repeals, for purposes of income taxes and Federal Insurance Contribution Act [FICA] taxes, the current-law exemption of employer-sponsored health coverage. Employers that continue to provide group health insurance to employees continue to claim contributions as a business expense deduction.

- **Individual Tax Credit.** Provides a flat, refundable income tax credit for individual and family purchase of health insurance. Credit is available only for the purchase of health insurance and may be used toward employer-provided coverage, if applicable. States have the option of allowing their Medicaid-eligible populations to take part in the tax credit, in lieu of the current Medicaid program. The credit may not be used by those enrolled in Medicare or a military health coverage plan.

  - *Credit Amount.* The tax credit equals $2,500 for individual tax filers and $5,000 for joint filers and families.

  - *Refundable and Advanceable.* The credit is refundable, and therefore available to low-income persons with no tax liability. Credit also is "advanceable," enabling individuals to purchase coverage at the beginning of a year, rather than waiting for their tax returns.

  - *Assignable.* The credit would be forwarded directly to the insurer of the tax credit recipient's choice, leaving the balance of the premium, if any, to be billed to the recipient.

  - *Inflation Adjustment.* The credit is adjusted for inflation: specifically, by an average of consumer price index and the percentage increase in the medical care component of the consumer price index.

- **Portability.** Allows individuals to carry personally owned insurance through changes of jobs or residences.

- **Interstate Purchasing.** Allows individuals who reside in one State to buy a more affordable health insurance plan in another State. Likewise, health insurance plans would be able to sell their policies to individuals and families in every State, as other companies do in every other sector of the economy.

- **Small Business Relief.** Allows small businesses to pool together nationally to offer coverage to their employees through association health plans [AHPs]. Plans are regulated at the Federal level and would have advantages similar to those of larger employer plans.

- **Health Information Technology.** Establishes a market-driven National Health Information Network, providing for individual ownership of medical records, and transitioning the health care industry from paper-based medical records to electronic medical records.

- **Other Tax Components.** Retains current-law income and FICA tax exclusions for Health Savings Accounts. Retains the 7.5-percent itemized deduction for medical expenses, but provides that taxpayers who claim the new health care tax credit may not take into account premiums for such coverage for purposes of the tax deduction.

- **Transparency.** See details in the Medicare component of this legislation.

- **Maintenance of Effort/High-Risk Pools.** Requires States choosing that their Medicaid population take part in the tax credit to spend previously allocated Medicaid funds on a Maintenance of Effort [MOE] program. Sets base MOE amount at the level the State spent in calendar year 2008 for its State Children's Health Insurance Program [SCHIP] and Medicaid for healthy adults and children. Increases MOE amount each year by the same inflation adjustment as the health care tax credit. Requires each State to prioritize its MOE spending in the following order:

  - *Auto-Enrollment.* Each State is to develop auto-enrollment health insurance procedures (similar to those for dual-eligibles under the Medicare Modernization Act) for previously eligible Medicaid recipients.

  - *High Risk Pools.* Funds are to be used to help low-income individuals and families (as defined by the State) and high-cost individuals and families (those for whom insurance is unavailable or highly expensive due to health status) purchase qualifying insurance. Eligible expenses shall include, but not be limited to, direct assistance with premiums and cost-sharing for low-income and/or high-cost families.

  - *Reinsurance Mechanisms*. Each State is to establish and finance reinsurance mechanisms, ensuring high risk pools are adequately funded and that individuals receiving coverage through high risk pools are not subject to prohibitively high premiums.

  - *Transparency Networks*. Each State is to establish and maintain a network designed to improve consumer information, transparency in price and quality data, and reductions in transition costs associated with health insurance enrollment.

TITLE II: MEDICAID AND SCHIP REFORM

- **Modernizing the Medicaid Benefit.** Allows States to choose whether to allow their respective Medicaid populations to participate in the tax credit plan, or to continue their current Medicaid programs. Provides block grants for the latter, totaling their respective 2008 Federal Medical Assistance Percentage [FMAP] funding, indexed to an average of consumer price index and the percentage increase in the medical care component of the consumer price index. Also adjusts the index for population growth.

- **Retention of Medicaid for Specific Populations.** Retains the Medicaid Program for States' long-term care and disabled populations, who do not take part in the tax credit. Provides to each State a block grant for such funds. Allows States maximum flexibility in tailoring Medicaid programs to the specific needs of the State. Indexes the long-term care block grant for inflation and adjusts for population growth in the same manner as the block grant option described above.

- **SCHIP.** Makes the current SCHIP population eligible for the health care tax credit.

TITLE III: MEDICARE REFORM

- **New Medicare Program.** Establishes a new Medicare Program – applicable for beneficiaries eligible on or after 1 January 2019 – transitioning to a program in which Medicare beneficiaries receive standard payments to pay for their health care coverage.

- **Eligibility for Payment.** Makes Medicare beneficiaries eligible for payments by enrolling in a health insurance plan. Pays the amount in each case directly to the health plan designated by the beneficiary (similar to the mechanics of the administration of the health care tax credit), with the beneficiary receiving any leftover amount as a refund payment from the health insurance plan, or assuming financial responsibility for any difference between the payment and the total cost of the premium.

- **Medicare Payment.** For beneficiaries first becoming eligible on or after 1 January 2019, creates a standard Medicare payment to be used for the purchase of private-sector health coverage.

  - *Payment Amount.* Standard payment is $9,500 (the average amount Medicare currently spends per beneficiary), and is indexed for inflation by the projected average of the consumer price index and the medical economic index. For affected beneficiaries, the payment replaces all components of the current Medicare program (Medicare Part A fee-for-service, Medicare Part B, Medicare Advantage, and Medicare Part D).

  - *Risk and Geographical Adjustments.* Payment amounts are risk-adjusted and partially geographically adjusted, with the geographic adjustment phasing out over time. Medicare beneficiaries received the standard amount – $9,500 – once they enroll for the benefit, with the flexibility to receive a positive adjustment of that amount based on a risk-assessment from their chosen health plan.

- *Income-Relating*. Payment amount is modified based on income, in a manner similar to that for current Medicare Part B premiums subsidies. Specifically: beneficiaries with incomes below $80,000 ($160,000 for couples) receive the full standard payment amount; beneficiaries with annual incomes between $80,000 and $200,000 ($160,000 to $400,000 for couples) receive 50 percent of the standard amount; beneficiaries with incomes above $200,000 ($400,000 for couples) receive 30 percent.

- **Extra Support for Low-Income Beneficiaries.** Establishes and funds Medical Savings Accounts [MSAs] for low-income beneficiaries. (Current law allows any Medicare beneficiary to set up a tax-free MSA; the reform proposal provides the additional support for low-income beneficiaries.)

  - *Dual-Eligibles and Incomes Below 100 Percent of Poverty.* For those fully "dual eligible" (eligible under current policies for both Medicare and Medicaid), and beneficiaries with incomes below 100 percent of the poverty level, an MSA subsidy is provided equaling the full deductible amount of an average high-deductible health plan.

  - *Incomes Between 100 Percent and 150 Percent of Poverty.* Those with incomes between 100 percent and 150 percent of poverty receive 75 percent of the full deposit.

- **Retention of Existing Program.** Retains current Medicare Program for those eligible prior to 1 January 2019. Premiums for Part A, Part B, and Part D are not affected by the phasing of the younger population into the new program. Strengthens the current program with changes such as income-relating drug benefit premiums to ensure long-term sustainability.

- **Continuation of Medicare Financing at Current Tax Rates.** Retains the Medicare payroll tax of 2.9 percent of the FICA and Self-Employed Contributions Act [SECA] payroll tax, as is the case now.

- **Transparency.** Restructures the current Agency for Healthcare Research and Quality [AHRQ] and removes it from the Department of Health and Human Services. Renames it the Healthcare Services Commission [HSC] governed along the same lines as the Securities and Exchange Commission, and managed by five commissioners chosen from the private sector, appointed by the President, and approved by the Senate.

  - *Purpose.* The purpose of the HSC is to enhance the quality, appropriateness, and effectiveness of health care services through the publication and enforcement of quality and price information.

  - *Standard-Setting Group.* Similar to the Financial Accounting Standards Board [FASB] role in establishing accounting principles, the bureau will have a standard-setting body – a Forum for Quality and Effectiveness in Health Care – consisting entirely of private-sector representation, with the authority to establish and promulgate metrics to report price and quality data. The forum members will represent views from medical providers, insurers, researchers, and consumers, and will serve independently of any other employment. The forum will publish, for public comment, a preliminary analysis on standards for reporting price, quality, and effectiveness of health care services. After the comment period, the group will publish a final report containing guidelines for regulating the publication and dissemination of health care information. The HSC is authorized to enforce these standards.

TITLE IV: SOCIAL SECURITY REFORM

- **Creation of Personal Accounts.** Beginning in 2011, provides workers under 55 the option of dedicating portions of their FICA payroll taxes toward personal accounts, or remaining in the current Social Security system. Automatically enrolls these workers in personal accounts, but provides the option to withdraw. Those who opt out have one opportunity to re-enter the system. Those who originally decide to enter the system will have one opportunity to withdraw.

- **Account Phase-In.** Gradually phases in accounts equivalent to 5.1 percent of the current 12.4-percent payroll tax over a 30-year period. Allows lower-income workers to contribute a higher percentage of their payroll taxes than high-income workers. Phase-in proceeds in four periods, as follows:

  - *First-Stage Initial Phase-In.* For the first 10 years of the program, workers are allowed to invest 2 percent of their first $10,000 of annual payroll into personal accounts, and 1 percent of annual payroll above that up to the Social Security taxable maximum amount of $115,500. The $10,000 level is indexed to inflation. Taxable payroll also is indexed for inflation, as under current law.

  - *Second-Stage Phase-In.* Beginning in 2021, workers are allowed to invest up to 4 percent of payroll of the first $10,000 (indexed to inflation), and 2 percent of payroll above that up to the Social Security taxable maximum amount (indexed to inflation).

  - *Third-Stage Phase-In.* Beginning in 2031, workers are allowed to invest up to 6 percent of payroll of the first $10,000 (indexed to inflation), and 3 percent of payroll up to the Social Security taxable maximum amount (indexed to inflation).

  - *Fourth-Stage Phase-In*. Beginning in 2041, workers are allowed to invest up to 8 percent of payroll of the first $10,000 (indexed to inflation), and 4 percent of payroll up to the Social Security taxable maximum amount (indexed to inflation).

- **Personal Accounts Deposits.** Deposits each personal account contribution into a Social Security Savings Fund, bearing the individual’s name. Converts individual accounts into annuities upon retirement.

- **Guaranteed Minimum Benefit.** Guarantees that those who select personal accounts the minimum benefits they would receive if they stayed in the current system, subject to the changes made to the current system. Should an individual's account be too small to provide an annual annuity equal to this minimum level, the Social Security Trust Fund would make up the difference.

- **Property Right.** Provides that each account is the *property* of the individual, allowing holders to pass on accumulated wealth to descendants.

- **No Change for Those Over 55.** Retains the current system for those currently over 55, with no changes.

- **No Change for Survivors and the Disabled.** Retains current survivor and disability benefits as under the current system, without change.

- **Increased Minimum Benefits for Low-Income Individuals.** Provides that all individuals choosing personal accounts receive annuity payments of at least 150 percent of the poverty level. Increases to at least 120 percent of the poverty level the benefits for low-income individuals who choose to remain in the current system and meet certain working requirements.

- **Social Security Personal Savings Account Board.** Creates a Board to administer the Savings Fund into which contributions to the personal accounts are deposited. Makes the Board responsible for paying administrative expenses and regulating investment options offered by nongovernment firms. Provides that the Board consist of five members – required to have substantial experience, training, and expertise in the management of financial investments and pension benefit plans – appointed by the President, two of whom are appointed after consideration of the recommendations by the House and Senate. Establishes 4-year terms for Board members.

- **Three-Tier Structure.** Structures individual accounts in three tiers, with investment options similar to the Thrift Savings Plan [TSP].

  - *Tier One*. Originally, the Board would invest the contributions in regulated, low-risk instruments until the personal account reached a low threshold.

  - *Tier Two.* Once this threshold is reached, individuals are automatically enrolled into a "life cycle" fund that adjusts for risk and automatically invests the portfolio in a blend of equities and bonds appropriate for the individual's age. An individual could remain in the "life cycle" fund or choose from five different options that are the same as offered under the TSP: 1) a Government Securities Investment Account; 2) a Fixed Income Investment Account; 3) a Common Stock Investment Account; 4) a Small Capitalization Stock Index Investment Account; and 5) an International Stock Index Investment Account.

- *Tier Three.* Once an account accumulated over $25,000 in inflation-adjusted dollars, an individual could choose an option provided by a non-government firm certified by the Board. The Board certifies only those firms meeting a set of standards. These nongovernment funds also are subject to regulation by the Board to ensure their safety and soundness.

- **Purchase of Annuity.** Provides that, when an individual either reaches the normal retirement age or decides to retire early, the individual will purchase an annuity to provide monthly payments equivalent to at least 150 percent of poverty. An individual may purchase a larger annuity if they choose. As described above, if the individual's personal account is inadequate to purchase an annuity that would provide a monthly payment as large as would be received under the traditional system, the government will make up the difference. If an individual has excess money in their account, they may receive it in a lump sum payment and use it as they choose.

- **Early Retirement for Personal Account Participants.** Allows an individual to retire and begin receiving an annuity at any time that their personal account has accumulated enough funds to purchase an annuity equivalent to at least 150 percent of poverty.

- **Annuity Purchase and Regulation.** Establishes within the Office of the Board, an Annuity Issuance Authority [AIA], which will provide annuity options to be purchased by retiring individuals.

- **Provision for Early Death.** Provides that, if an individual dies before their full annuity has been paid, the amount of funds left over in their annuity or personal account will be made available to their designated beneficiaries or estate.

- **No Taxation of Personal Account Benefits.** No tax will be paid on the receipt of Social Security benefits generated from personal account payments either as a part of an individual's Federal income tax or estate tax.

- **Progressive Price Indexing.** *Excluding those now over 55*, employs, starting in 2016, a mix of wage indexing and "progressive price indexing" for calculating initial Social Security benefits under the traditional system, with adjustments for income levels as follows:

  - *Low-Income.* Individuals who make less than a certain threshold level (approximately $25,000 per year in 2016) will continue to receive initial benefits based on wage indexing. Threshold will be indexed for inflation.

  - *Middle-Income.* Individuals who make between the minimum threshold and the maximum taxable amount (approximately $25,000 and $113,000 in 2016) will have initial benefits adjusted upward by a combination of wage and price indexing that becomes more oriented toward price indexing as they move up the income scale. For example, an individual whose income is half way between $25,000 and $113,000 (in 2016 dollars) will have his initial benefit adjusted upward approximately

50 percent by wage indexing and 50 percent by price indexing. These amounts will also be adjusted for inflation.

- *Upper-Income.* Individuals who make more than the taxable maximum amount (approximately $113,000 in 2016) will have initial benefits adjusted upward by price indexing, also adjusted for inflation.

- *No Effect on COLAs.* The proposal does not affect the cost-of-living adjustment [COLA] that Social Security beneficiaries receive each year once they have already begun receiving benefits. Further, it does not affect any individuals over 55, as it is not applied to Social Security beneficiaries until 2016.

▫ **Acceleration of Ongoing Retirement Age Increase.** Advances by 1 year the current retirement age adjustment, which, under current law, gradually rises to 67 years of age for those who reach that age in 2027.

▫ **Modernizes the Retirement Age.** After the normal retirement age of 67 is reached in 2026, indexes further adjustments in the retirement age in accordance with the Social Security Administration's projected life expectancy, which is expected to gradually increase the normal retirement age by 1 month every 2 years. At this rate, the normal retirement age would remain below 70 years until 2098. Does not affect the ability of an individual to retire early if he or she elects to retire early and has accumulated enough wealth to retire early.

TITLE V: SIMPLIFIED INCOME TAX

▫ **Revenue Projections.** In combination with Title VI below, holds total Federal revenue to an average of 18.5 percent of GDP for the foreseeable future.

▫ **Offers Individual Taxpayers a Choice.** Provides individuals the choice of paying income taxes in either of two ways: 1) under a new Simplified Tax, or 2) under the existing tax code.

- *Current Code Taxpayers*. Those choosing the current code will pay their income taxes with existing tax forms ,the current set of exemptions, exclusions, deductions, and credits; but the alternative minimum tax [AMT] is eliminated.

- *Individuals Choosing Simplified Tax.* The new, Simplified Tax broadens the tax base by clearing out nearly all of the existing tax deductions and credits, compresses the tax schedule down to two low rates and retains a generous standard deduction and personal exemption.

▫ **AMT Repeal.** Eliminates the AMT entirely and permanently.

▫ **Selection of Simplified Individual Income Tax.** Applies the following rules for choice of individual income tax:

- *Initial Election.* The election must be made within 10 years from the time that the simplified tax is established. Individuals are not allowed to switch between tax systems on a year-by-year basis.

- *Changeover Options.* After the initial choice is made, however, individuals are allowed *one* additional changeover between the two tax systems over the course of a lifetime. Individuals are also allowed to change tax systems when a major life event (death, divorce, marriage) alters their tax filing status.

Applies the Simplified Tax solely to Federal individual income taxes. Does not affect other Federal individual taxes, such as payroll taxes and excise taxes.

- **Two-Rate Tax Schedule.** Creates the following Simplified Tax rates:

  - *Ten-Percent Rate.* A rate of 10 percent applies to adjusted gross income [AGI] (defined below) up to $100,000 for joint filers, and $50,000 for single filers.

  - *Twenty-Five Percent Rate.* A rate of 25 percent applies to taxable income above $100,000 for joint filers and $50,000 for single filers. (See Table for a comparison with current tax brackets.)

Table A1-1: Tax Rate Comparison - Single Filers

Current Tax Code		Simplified Tax	
Marginal Rate	Taxable Income	Marginal Rate	Taxable Income
10 percent	$0-$7,825	10 percent	$0-$50,000
15 percent	$7,825-$31,850		
25 percent	$31,850-$77,100	25 percent	$50,000 and over
28 percent	$77,100-$160,850		
33 percent	$160,850-$349,700		
35 percent	$349,700 and over		

Table A1-2: Tax Rate Comparison - Joint Filers

Current Tax Code		Simplified Tax	
Marginal Rate	Taxable Income	Marginal Rate	Taxable Income
10 percent	$0-$15,650	10 percent	$0-$100,000
15 percent	$15,650-$63,700		
25 percent	$63,700-$128,500	25 percent	$100,000 and over
28 percent	$128,500-$195,850		
33 percent	$195,850-$349,700		
35 percent	$349,700 and over		

- **Adjusted Gross Income, Standard Deductions, and Personal Exemptions.** Defines taxable income as equal to earnings minus a standard deduction and personal exemption. The standard deduction is $25,000 for joint tax filers, $12,500 for single filers. The personal exemption is $3,500. The combination is equivalent to a $39,000 exemption for a family of four.

- **Returns to Savings Tax Exempt.** Contains no tax on interest, capital gains or dividends.

- **Broader Tax Base.** Eliminates, in the Simplified Tax, virtually all of the credits and deductions in the existing tax code, but retains a generous standard deduction amount while lowering tax rates. Retains health care tax credit described above.

TITLE VI: BUSINESS CONSUMPTION TAX

- **Business Consumption Tax.** Eliminates the current corporate income tax and replaces it with the Business Consumption Tax of 8.5 percent on goods and services. BCT calculated using "credit invoice method."

  - Businesses apply the BCT to the sales of their products or services, and then claim a credit for the BCT paid on purchases of material costs from other businesses shown on purchase invoices.

  - The difference between the BCT collected on sales and credit for the BCT paid on input purchases is then paid to the Federal Government. The system provides a clear audit trail of the business tax because the amount is clearly stated on sales and purchase receipts.

- **Treatment of Investments.** Allows immediate expensing of investments.

- **Border-Adjustability.** Does not impose BCT on exports leaving the U.S., but instead imposes it on imports when arriving in the U.S.

TITLE VII: BUDGET ENFORCEMENT

- **Cap on Total Government Spending.** Establishes a binding cap on total spending as a percentage of GDP at the spending levels projected to result from this legislation.

- **Annual Long-Term Projections.** Requires that, every year, the Office of Management and Budget [OMB] and the Congressional Budget Office project Federal Government spending levels and compare those levels to the government spending limits.

- **Excess Spending.** Creates a mechanism to automatically slow the growth in faster-spending entitlement programs, applied every 5 years, if spending is projected to exceed the established limits, and Congress has failed to address the problem during the previous 5 years. Under the mechanism, requires OMB to make across-the-board spending reductions in both mandatory and discretionary programs by a percentage calculated to bring spending under the cap, but applies the reduction only to fast-growing programs, and is limited to no more than 1 percent of a program's spending.

- **Congressional Grace Period.** Provides that, after the spending reduction is ordered, it does not go into effect until the next fiscal year, affording the Congress time to act to correct the problem before the automatic spending reductions go into effect.

- **Suspension in Times of Low-Growth or War.** Provides that spending reductions would not be required if the nation is at war or suffering an economic downturn.

- **Supermajority Requirement for Tax Increase.** Requires a three-fifths vote in the House and Senate to raise Federal revenue above 18.5 percent of GDP.