

The purpose of this briefing packet is to:

- 1) Provide overview of the HCTC
- 2) Understand why the ARRA regulations need to be reauthorized past 02/13/11 for PBGC recipients
- 3) Be informed on the constituents who are impacted



January 2011

What is the HCTC?

Am I eligible?

Value and Importance of HCTC

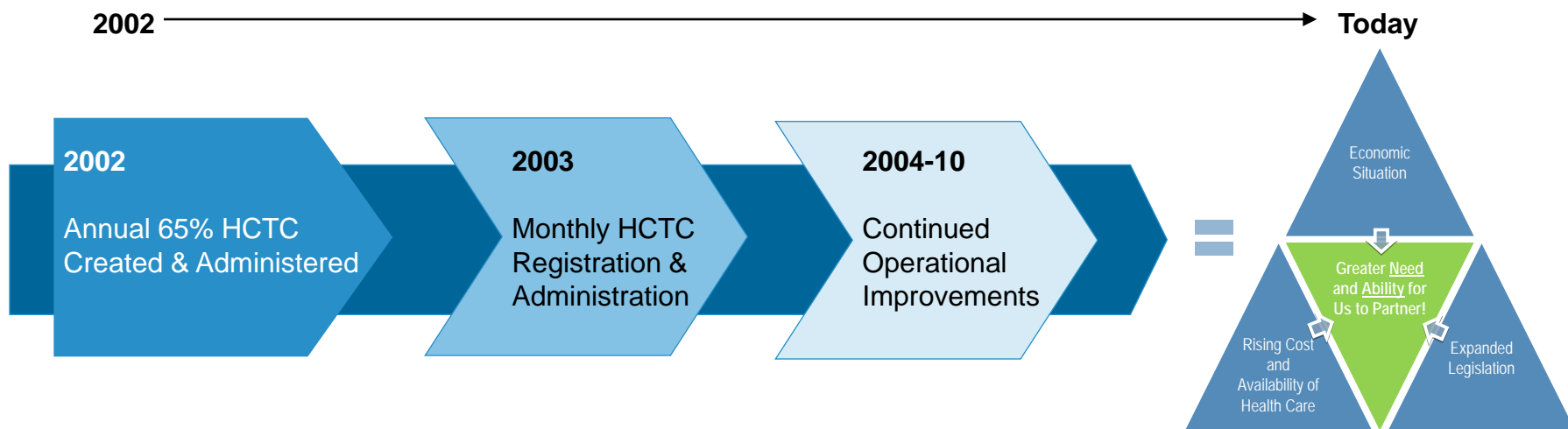
ARRA Provisions

Potential Value of HCTC

The HCTC is a federal program that pays 80% of your health insurance premiums on a monthly or yearly basis, at least through February 13, 2011.

Congress created the HCTC Program as part of the 2002 Trade Act. It was established to help cover the cost of health care for:

- Workers who lost their jobs due to foreign trade
- Retirees whose pensions were taken over by the Pension Benefit Guaranty Corporation (PBGC)



The HCTC is administered through the Internal Revenue Service.

The HCTC is available to you, if you...

STEP 1 – Meet Initial Requirements:

- Pension Benefit Guaranty Corporation (PBGC) Recipient
- Trade-Affected (TAA, ATAA or RTAA certified)

STEP 2 – Meet General Requirements:

- Not enrolled in Medicare
- Not claimed as a dependent on another person's Federal tax return

STEP 3 – Are enrolled in a Qualified Health Plan:

- COBRA or certain VEBA plans (i.e. the Delphi or Delta Pilots VEBA)
- State-Qualified Health Plans
- Spousal Coverage
- Non-group / Individual Health Plan

PBGC recipients receive the greatest benefit from the HCTC program, even more so than Trade-Affected workers.

- PBGC recipients suffer the most devastating loss of income with an average reduction of 40% - 75% in pension income as a result of the plan termination.
- From the time the pension is terminated, the loss of pension income is permanent and in many cases is paid out on a reduced basis for the life of the recipient. Unlike the Trade workers which has no age requirements, the HCTC is only available to PBGC recipients during the time they are 55-64, and this program functions as a tax credit to bridge them until eligible for Medicare.
- If the HCTC tax credit were to drop from 80% to 65%, this could mean the difference between having insurance or not having insurance due to the significant cost increase. In most cases, the HCTC program is the only option some retirees even have because of being uninsurable due to pre-existing conditions. This decrease in tax credit would result in a total premium increase of 75%!

Example: 80% tax credit - monthly payment = \$170
 65% tax credit - monthly payment = \$299
- In addition to a terminated pension, most PBGC recipients have had their employer based healthcare coverage terminated as well. For most retirees, the HCTC qualified plans remain their only option for coverage and must remain at an affordable premium.

While the Trade-Affected workers benefit from the HCTC program, it is much more important and essential benefit for the PBGC recipient as outlined below.

	<i>PBGC Recipient</i>	<i>Trade-Affected</i>
<i>Age Requirement</i>	<i>Must be 55-64 years of age</i>	<i>Can be of any age</i>
<i>Probability of replacing lost income</i>	<i>Low Probability due to:</i> <ul style="list-style-type: none"> <i>• Retiree’s age (55-64) limits ability to find another job</i> <i>• Time out of the workplace, skill set becomes dated</i> 	<i>High Probability due to:</i> <ul style="list-style-type: none"> <i>• Younger age, still in the workforce, able to find another job</i> <i>• Have other options for re-training and educational programs</i> <i>• Unemployment income</i>
<i>Options for accessing other health care coverage</i>	<ul style="list-style-type: none"> <i>• Limited - individual market too restrictive due to pre-existing conditions and guarantee issue clauses.</i> <i>• Higher HCTC tax credit recipients will have more options when seeking healthcare</i> 	<ul style="list-style-type: none"> <i>• Working Spouse</i> <i>• New Employer</i> <i>• State Qualified Plans</i>
<i>Need for HCTC?</i>	<i><u>Permanent</u> - the loss of a pension is permanent; recipients need a long-term solution and assistance with accessing health care coverage.</i>	<i><u>Temporary</u> – Trade Affected workers will find a new employment and receive other interim assistance from the DOL programs while searching.</i>
<i>Does HCTC act as a tax credit bridge?</i>	<i>Yes – tax credit acts as a bridge to Medicare</i>	<i>Yes – tax credit acts as a bridge to next employment opportunity (i.e. Job)</i>

The PBGC recipients and the Trade-Affected workers are two separate constituent bases that have different needs, yet the legislation impacting both of these groups are tied together making them one unit.

Action Requested:

With respect to the HCTC program, legislation needs to be passed that breaks out the PBGC-Affected recipients from the Trade-Affected workers for purposes of being able to pass future legislation that is specific and meeting the varying needs of these two groups of people.

The *American Recovery Reinvestment Act** (ARRA) changed the HCTC:

Greater Portion of Health Coverage Cost Paid

Reimbursement for Payments Made During Enrollment

Extended HCTC Eligibility for Qualified Family Members

Immediate Establishment of HCTC Qualified VEBA Plans

****The legislation that changed the HCTC expired on December 31, 2010, and was temporarily extended until February 13th, but needs to be reauthorized on a longer term basis NOW! .***

For the last 22 months, the HCTC has paid a greater portion of health coverage costs, and in the current economic environment, **it is critical to continue the 80% tax credit.**

Action Requested:

Reauthorize and continue the HCTC tax credit at 80%; amend language by striking 'February 13, 2011' and inserting 'July 1, 2012' (see Appendix in Sec. 111 for full details on how bill should be amended).

The tax credit was **increased from 65% to 80%** of qualified health insurance premiums for **all current and new** HCTC participants, regardless of TAA petition date.

Began in May 2009

Over 10,000 Delphi and Delta Air Lines Retirees and family members, and thousands of other retirees across the country benefit from the HCTC.

Plan costs below represent total cost for:

- **Medical**
- **Prescription Drug**
- **Dental**
- **Vision**

Products are all bundled into one plan to maximize the value of the HCTC

	\$250 Plan DEDUCTIBLE	80% HCTC APPLIED
Single	\$853.94	\$170.79
Two Person	\$1,907.31	\$381.46
Family	\$2,374.16	\$474.83

Value of HCTC 80% tax credit vs. 65% tax credit

*If the tax credit is not extended and reverts to 65% in 2011, the result will be a **75% rate increase to plan participants in one year!***

	WITH 80% HCTC APPLIED	WITH 65% HCTC APPLIED	Cost of Healthcare expressed as % of Income*	
			80% tax credit	65% tax credit
Single	\$170.79	\$298.88	8%	13%
Two Person	\$381.46	\$667.56	17%	30%
Family	\$474.83	\$830.96	21%	37%

** Percent of Income was calculated using an average monthly pension of \$2250*

Until 12/31/10, participants could request to receive the 80% tax credit for the full payments that were made while enrolling to be credited to their monthly HCTC account instead of waiting to claim it on their annual tax return.

Action Requested:

Reauthorize and continue the Monthly Reimbursement Program; amend language by striking 'February 13, 2011' and inserting 'July 1, 2012' (see Appendix in Sec. 112 for full details on how bill should be amended).

Participants who made payments for qualified health insurance while enrolling can receive a credit on their monthly HCTC account or claim the yearly credit on their federal tax return.

This change reimburses participants much sooner for the out-of-pocket expenses paid for health insurance.

Began in August 2009

When the QFM program was in effect, it was very well received. But due to the complexities of the QFM program, the temporary extension did not help this part of the program. Changes must be made in order to give participants the assurance that the program is a long-term and sustainable.

Action Requested:

- Incorporate the QFM program as a permanent part of the HCTC program
- Remove the maximum 24 month time limit that a pre-Medicare QFM is eligible to participate in the program.

(see Appendix in Sec. 115 for full details on how bill should be amended).

Qualified family members (QFMs) will be able to receive the HCTC even after the primary eligible individual's:

- Enrollment in Medicare
- Divorce
- Death

Began in January 2010

Factors to Consider for QFM's:

The QFM program needs to be permanently incorporated as part of the HCTC program

- Anytime a retiree turns 65 and becomes Medicare eligible, the pre-65 spouse/dependent immediately begins to pay 100% of healthcare premiums

	<i>Without QFM Program</i>		<i>With QFM Program</i>	
	<i>100% Cost</i>	<i>% of total income</i>	<i>80% tax credit</i>	<i>% of total income</i>
Single	\$853.94	38%	\$170.79	8%
Two Person	\$1,907.31	85%	\$381.46	17%
Family	\$2,374.16	105%	\$474.83	21%

- Currently, 600 Delphi and 200 Delta families have benefitted from this aspect of the program, but ALL retiree families will be impacted at some point in the future due to this disconnect in how eligibility is determined.
- There will always be an age difference between a retiree and spouse, which if left unaddressed will be a long-term flaw in the HCTC program.

*** Percent of Income was calculated using an average monthly pension of \$2250**

Factors to Consider for QFMs (cont'd):

Remove the maximum 24 month time limit that a pre-Medicare QFM is eligible to participate in the program.

- In many cases, there is more than a 24 month difference in age between a retiree and spouse.

Example: As the law is currently written, the HCTC eligibility for a 62 year old spouse would end once the retiree turns 67 (24 months after the 65th birthday and eligible for Medicare). The result is that for those 3 years, the spouse would have to pay 100% of the cost - \$853 per month, \$10,236 per year, or \$30,708 for the 3 year period.

- The 24 months is an arbitrary length of time for eligibility, and causes tremendous anxiety and frustration when trying to maintain consistent health coverage for fear of pre-existing condition clauses and guaranteed issue conditions to meet. While it is not an issue that may greatly impact those people qualifying due to the TAA or ATAA, it is very important to retirees qualifying due to the loss of their pensions.

The Recovery Act immediately allowed for the creation of an HCTC qualified VEBA, and during this window the plan was qualified.

Action Requested:

All VEBAs created during the authorized time frame should be permanently considered an HCTC qualified VEBA for the duration of its existence. Otherwise, the uncertainty of its ever changing qualification status is a deterrent to the participants who consider leaving other insurance to join an HCTC plan ' (see Appendix in Sec. 117 for full details on how bill should be amended).

Benefits delivered through a voluntary employee benefit association (or “VEBA”) is immediately eligible as HCTC qualifying coverage, as long as:

- **The VEBA was set up by a bankruptcy section 1114 retiree committee, or**
- **The VEBA is authorized by the order of a bankruptcy judge**

Factors to Consider for VEBAs:

All VEBAs created during the authorized time frame should be permanently considered an HCTC qualified VEBA for the duration of its existence.

- If a VEBA was created by meeting the qualification, it should be a 'grandfathered' as an HCTC eligible VEBA for life.
- In many situations, the VEBA was created as a full replacement to any other options the retiree and family may have access to, and was intended to be the long-term solution until all family members are Medicare eligible.
- Given the cost and effort of setting up a VEBA, if a long-term solution is not available, then this provision will never be fully embraced or accepted by those who could benefit the most from it.

HCTC Cost Analysis

The government views the HCTC as a tax expenditure as it relates to their budget. The Joint Committee on Taxation (JCT) budget projections can be found below by year.

(Millions)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Budget	300	400	400	500	500	500	500	500	500	500	4,600
Actual Tax Credit Claimed*	50	<100	<100	<100	<100	<100	138	228 Est.			<916
Variance	(250)	>(300)	>(300)	>(400)	>(400)	>(400)	(362)	(272) Est.			>(2,684)

Enhancements and operational improvements to the HCTC program under the ARRA for '09-'10 are estimated to be 167.3M. Even with an increased expenditure due to the reauthorization of the HCTC provisions, this still will keep the actual tax credit claimed well under the budgeted amount.

*The JCT budget for the HCTC assumes expenditures to be split evenly between PBGC and TAA participants in the program. For example if the budget calls for 300M then the assumption is that 150M will be attributed to the PBGC and 150M to the TAA participants.

Appendix

Subtitle B--Health Coverage Improvement (from H.R. 6517 passed on December 22, 2010)

SEC. 111. IMPROVEMENT OF THE AFFORDABILITY OF THE CREDIT.

- (a) In General- Section 35(a) of the Internal Revenue Code of 1986 is amended by striking 'January 1, 2011' and inserting ~~'February 13, 2011'~~ 'July 1, 2012'.
- (b) Conforming Amendment- Section 7527(b) of such Code is amended by striking 'January 1, 2011' and inserting ~~'February 13, 2011'~~ 'July 1, 2012'.
- (c) Effective Date- The amendments made by this section shall apply to coverage months beginning after December 31, 2010.

SEC. 112. PAYMENT FOR THE MONTHLY PREMIUMS PAID PRIOR TO COMMENCEMENT OF THE ADVANCE PAYMENTS OF CREDIT.

- (a) In General- Section 7527(e) of the Internal Revenue Code of 1986 is amended by striking 'January 1, 2011' and inserting ~~'February 13, 2011'~~ 'July 1, 2012'.
- (b) Effective Date- The amendment made by this section shall apply to coverage months beginning after December 31, 2010.

SEC. 115. CONTINUED QUALIFICATION OF FAMILY MEMBERS AFTER CERTAIN EVENTS.

- (a) In General- Section 35(g)(9) of the Internal Revenue Code of 1986, as added by section 1899E(a) of the American Recovery and Reinvestment Tax Act of 2009 (relating to continued qualification of family members after certain events), is amended by striking 'January 1, 2011' ~~and inserting 'February 13, 2011'~~.
- (b) Conforming Amendment- Section 173(f)(8) of the Workforce Investment Act of 1998 (29 U.S.C. 2918(f)(8)) is amended by striking 'January 1, 2011' ~~and inserting 'February 13, 2011'~~.
- (c) Effective Date- The amendments made by this section shall apply to months beginning after December 31, 2010.

In addition, all reference in the "American Recovery and Reinvestment Act of 2009 - Division B – Title I – Subtitle I – Part VI Health Coverage Improvement - Sect. 1899E: All mention of the 24 month eligibility window for qualified family members should be struck, and should only require the qualified family member to meet the eligibility of the HCTC program.

SEC. 117. ADDITION OF COVERAGE THROUGH VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATIONS.

- (a) In General- Section 35(e)(1)(K) of the Internal Revenue Code of 1986 is amended by striking 'January 1, 2011' ~~and inserting 'February 13, 2012'~~.
- (b) Effective Date- The amendment made by this section shall apply to coverage months beginning after December 31, 2010.