



PPACA Provision Challenges Health Insurance Companies and Vendors

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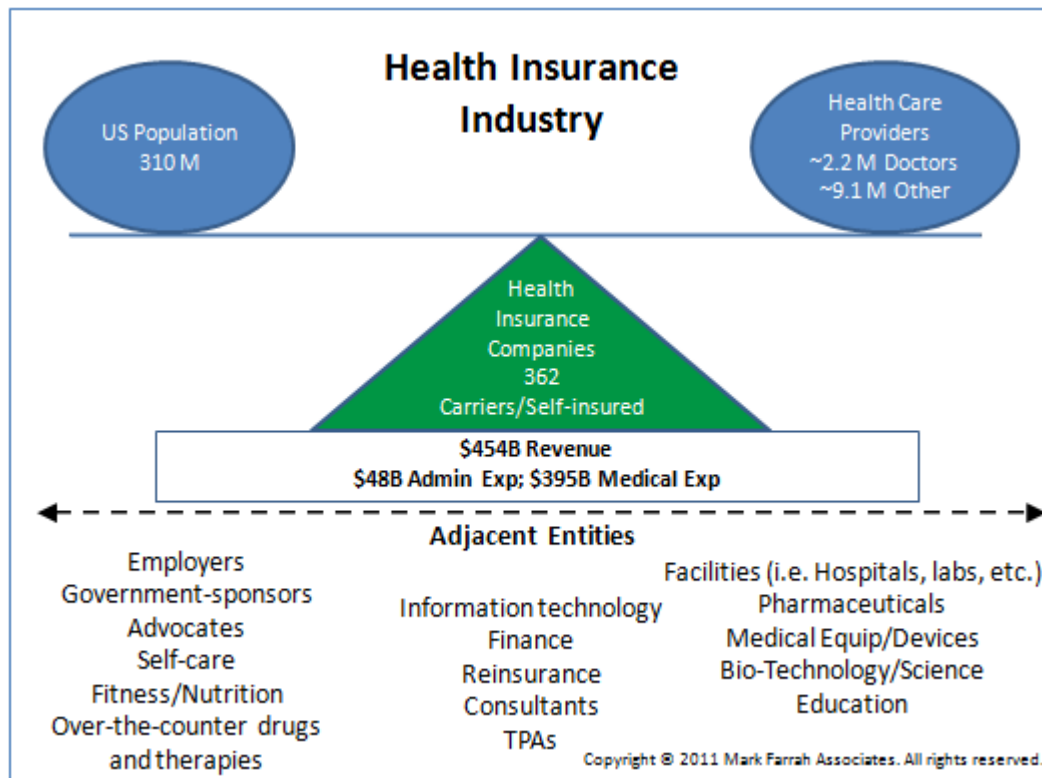
One of the ways Congress hopes to generate revenues under the Patient Protection and Affordable Care Act (PPACA) is through a tax reporting change designed to discourage tax evasion by corporations and individuals. The provision, Section 9006 Expansion of Information Reporting Requirements, of the PPACA changes the Internal Revenue Service (IRS) rules on 1099 reporting; beginning in 2012, businesses must send the IRS a 1099 form for every vendor or service provider with which they have had at least \$600 in total aggregate transactions during the year. This provision is expected to raise \$17 billion over 10 years. While many vendors thought this section of PPACA would be repealed, Congress has been unable to find an alternative revenue source to offset the provision. Health insurance companies throughout the country, already under pressure to reduce administrative costs, are altering their vendor management policies. Many vendors in this \$453.9 billion industry may find the health insurance business more challenging, whether or not this provision or PPACA is repealed.

Section 9006 of PPACA

One of the ways Congress hopes to generate revenues under the Patient Protection and Affordable Care Act (PPACA) is through a tax reporting change designed to discourage tax evasion by corporations and individuals. The provision, Section 9006 Expansion of Information Reporting Requirements, of the PPACA changes the Internal Revenue Service (IRS) rules on 1099 reporting; beginning in 2012, businesses must send the IRS a 1099 form for every vendor or service provider with which they have had at least \$600 in total aggregate transactions during the year.¹ Currently, businesses must notify the IRS on 1099 forms for payments to individuals for certain services or property over \$600. However, effective December 31, 2011, the requirements will be changed so that payments to corporations and other businesses must also be reported. There are some exceptions but most of the services health plans use vendors for are included in this provision. In addition to issuing the forms, a business will have to get Taxpayer Identification Numbers (TINs) from all of its vendors and withhold payments to them until it receives the TIN. Penalties apply if the business fails to issue the forms.

This provision is expected to raise, through fines and increased reported revenues, \$17 billion over 10 years according to the Joint Committee on Taxation (<http://www.jct.gov/publications.html?func=startdown&id=3672>). While many business owners thought this section of PPACA would be repealed, Congress has been unable to find an alternative revenue source to offset the proceeds the provision is expected to generate. Health insurance carriers throughout the country, already under pressure to reduce administrative costs, are already altering their vendor management policies. Administering PPACA Section 9006 is another challenging aspect of health reform for health plans. Many vendors in this \$453.9 billion industry may find the health insurance business more challenging, whether or not this provision or PPACA is repealed.

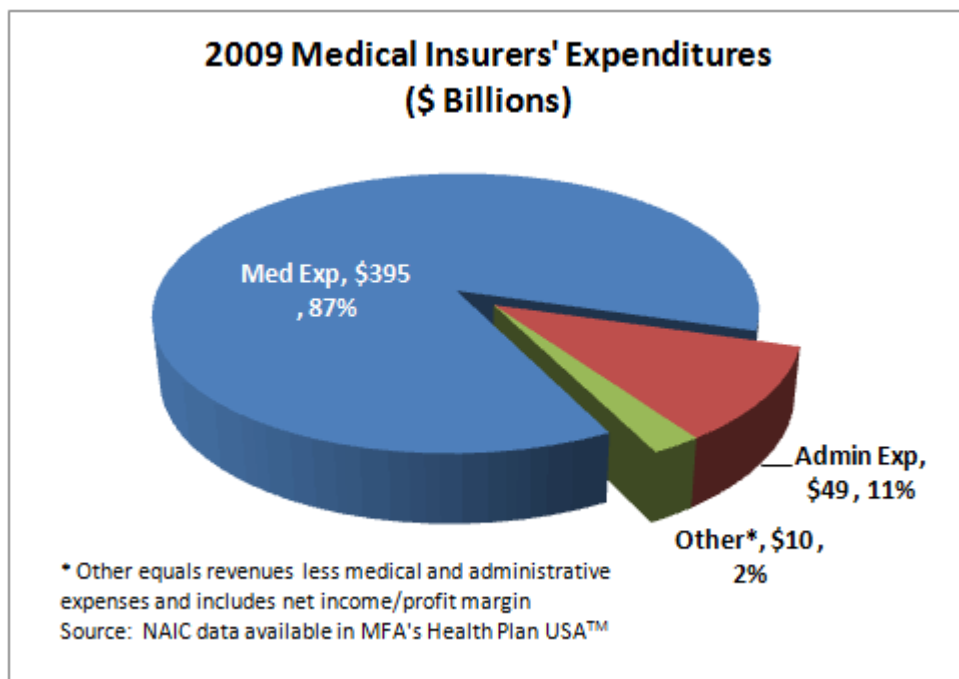
Section 9006 of PPACA applies to all businesses and not just the health care industry. However, the health insurance industry works with a lot of vendors in its role of balancing the medical needs of the population with the resources of providers.



As the fulcrum point between patients and health care providers -- health insurance companies have historically been an attractive segment to do business with. From Information technology vendors to reinsurers, consultants to third party administrators, many companies depend on dollars expended by health plans for administrative services. A larger number of vendors, e.g., physicians and other health practitioners receive medical expense dollars health insurers' disburse as claims payments. Health maintenance organizations work with care management and health coach companies and often outsource nurse case management services to other organizations. Pharmaceutical manufacturers, medical equipment vendors and biotech companies also look to and work with insurance carriers to ensure their services will be paid for as needed. Hospitals, laboratories and durable medical equipment vendors all provide services that are paid through health insurance companies. These are only a few examples of the multitude of vendors from whom health insurance companies purchase goods and services. The burden of Form 1099 distribution across the health care supply chain is mind boggling.

Health Insurance Industry Big Business

In 2009, the health insurance industry reported an aggregate of \$454 billion in revenue. Approximately \$395 billion paid for medical expenses, roughly 87 cents of every dollar collected in revenue. Another \$49 billion was spent on administrative expenses for activities such as enrolling and assisting members, processing claims, provider network management and meeting regulatory reporting requirements. Much attention has been given to reducing the 11% of revenue dollars spent on administering health insurance business.



Health insurance companies work with many adjacent industries such as information technology to eliminate costs. After medical and administrative costs are subtracted from revenues — about 2% remains for other costs such as increasing reserves and as net income/net profit, which is often used to reimburse investors.

The fate of PPACA and provision 9006 remains debatable. The Journal of Accountancy published by American Institute of CPAs (Jan 27, 2011) recently reported "For small businesses that were dreading the thought of having to produce a Form 1099 for every payee to which they paid at least \$600, President Barack Obama offered the prospect of relief in his State of the Union speech Jan. 25 when he said, "We can start right now by correcting a flaw in the [health care] legislation that has placed an unnecessary bookkeeping burden on small businesses."

"Efforts to repeal the expanded Form 1099 reporting requirements failed during Congress' lame-duck session at the end of 2010. However, on the same day as the State of the Union address, two bills were introduced in the Senate that would repeal the section of the Patient Protection Act that enacted the expanded 1099 requirements (both titled the Small Business Paperwork Mandate Elimination Act of 2011). Sens. Max Baucus, D-Mont., and Harry Reid, D-Nev., introduced S 72, which would repeal the requirement without any revenue offset. Sens. Mike Johanns, R-Neb., and Joe Manchin, D-W.Va., introduced S 18, which would offset the costs of repeal by rescinding \$39 billion in unspecified discretionary federal spending."

Nonetheless, health insurance companies are not waiting to see what happens in Congress. They are making vendor management procedures a higher priority and focusing on ways to reduce reliance on external services. UnitedHealth Group for example is reducing operating costs by more efficient sharing of common resources; a corporate goal is to reduce its cost structure by about \$1 billion over the course of five years through improving process quality, automation, integration, and procurement and sourcing improvements.

As health plans consolidate and tighten their vendor relationships, companies wishing to do business with them will need to strengthen their knowledge of insurance companies and target the right individuals within these companies. Mark Farrah Associates' Health Plans USA product is the most comprehensive and accurate resource available for U.S. health insurance market share data. This user-friendly database presents the latest health plan membership including: Self-funded — Commercial risk — Medicare — Medicaid enrollment, Market share by parent, plan or state, and revenue and expenses for U.S. health insurance companies. This powerful database will give you complete and accurate information for health plans nationwide. Plus, the Company Contacts tool provides current contact information and useful company snapshots.

¹To learn more see The Joint Committee on Taxation's publication [JCX-18-10](http://www.jct.gov/publications.html?func=startdown&id=3673) (<http://www.jct.gov/publications.html?func=startdown&id=3673>) page 113.

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