Developing a Plan for Health Care Reform

Understand-Analyze-Determine-Align

Understand the Landscape
Analyze Financial Impact
Determine Company & Employee Impact
Align with Business Strategy

Tools & Resources Needed for All
Health Care Reform - Understand

- Are you considered a large or small employer?
- What does Employer Shared Responsibility mean?
- What is the Individual Mandate?
- What is different between a public & private exchange?
- How will state’s decision to expand Medicaid impact your organization?
What is a "Large Employer"?

- A "large employer" is an employer with 50 or more full-time employees (including full-time equivalents).

- Large employer status determined based on average number of employees in previous calendar year.

- Common ownership rules (control group and affiliated company rules) apply.
An employer is not required to provide coverage, but a large employer will face a tax penalty beginning January 1, 2014, if it:

- fails to provide **minimum essential coverage** to at least 95% of its **full-time employees** and their dependent children (up to age 26), or

- provides **minimum essential coverage** to at least 95% of its **full-time employees** and their dependent children (up to age 26) but such coverage is either **not affordable** or does not provide **minimum value**
### 2014 Employer Penalties

<table>
<thead>
<tr>
<th>Healthcare Reform Coverage Tier</th>
<th>Employer Coverage Mandate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FPL Range</strong></td>
<td><strong>Employer Plan Contribution % of HHI</strong></td>
</tr>
<tr>
<td>0% to 138%</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>139% to 400%</td>
<td>&gt;9.5% of HHI</td>
</tr>
<tr>
<td></td>
<td>&lt;9.5% of HHI</td>
</tr>
<tr>
<td></td>
<td>&lt;9.5% of HHI</td>
</tr>
<tr>
<td>400%+</td>
<td>Not Applicable</td>
</tr>
</tbody>
</table>

1. In non-Medicaid expansion states, subsidy penalties apply down to 100% FPL
2. Small employers (<50) exempted from all penalties
3. Penalty and contribution %’s will be indexed annually
Individual Mandate

- General rule that individuals must either secure "minimum essential coverage" or pay a tax penalty

- Tax penalty
  - Taxpayer pays for him/herself and for tax dependents.
  - No penalty if gap in coverage is less than 3 months
Individual Penalties

- Annual penalty is the **greater of** a flat dollar amount per individual or a percentage of the individual’s taxable income.

  - The flat dollar amount or a % of taxable income per individual
    - 2014: $95 or 1%
    - 2015: $325 or 2%
    - 2016: $695 or 2.5%
    - After 2016, it is indexed to inflation. The flat dollar penalty is capped at 300% of the flat dollar amount.

  - Penalty is half for dependents under the age 18.
# Public / Private Exchange Comparison

<table>
<thead>
<tr>
<th>Public Exchange</th>
<th>Private Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Individuals /</td>
<td>▪ Employer Sponsored</td>
</tr>
<tr>
<td>▪ Small Business <em>(delayed)</em></td>
<td>▪ Defined Contribution</td>
</tr>
<tr>
<td>▪ Carrier based QHP</td>
<td>▪ Insurance Carriers or Third Parties</td>
</tr>
<tr>
<td>▪ State / Federal Administration</td>
<td>▪ Fully Insured or Self - Funded</td>
</tr>
<tr>
<td>▪ Federal Premium &amp; Cost Sharing Subsidies</td>
<td>▪ No Federal Subsidies</td>
</tr>
</tbody>
</table>
Public Exchange Overview

- PPACA mandates establishment of state based health benefit Exchanges

- States have three options to comply
  - State Managed Exchange – 19 states declared
  - Federal Partnership – 7 states declared
  - Federal Based Exchange – 25 states declared (including IN)

- Premium and Cost sharing credits available to individuals with household income between 100-400 of federal poverty level (FPL)
## Exchange Subsidies
### Household Income Distribution

<table>
<thead>
<tr>
<th>Household Size</th>
<th>100%</th>
<th>138%</th>
<th>250%</th>
<th>400%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$11,490</td>
<td>$15,856</td>
<td>$28,725</td>
<td>$45,960</td>
</tr>
<tr>
<td>2</td>
<td>$15,510</td>
<td>$21,404</td>
<td>$38,775</td>
<td>$62,040</td>
</tr>
<tr>
<td>4</td>
<td>$23,550</td>
<td>$32,499</td>
<td>$58,875</td>
<td>$94,200</td>
</tr>
</tbody>
</table>

- Eligibility for premium subsidy is based on Modified Adjusted Household Income
- HHI must be between 100 – 400% FPL to qualify for subsidy
- Subsidies range from 2 – 9.5% of HHI
## Employer HCR Provisions - Actuarial Value

### Metallic Tiers – Sample Plan Designs

<table>
<thead>
<tr>
<th>Plan</th>
<th>Deductible</th>
<th>Coinsurance</th>
<th>Out-of-Pocket Maximum</th>
<th>Actuarial Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$250</td>
<td>80%</td>
<td>$1,000</td>
<td>90%</td>
</tr>
<tr>
<td>2</td>
<td>$500</td>
<td>90%</td>
<td>$1,000</td>
<td>90%</td>
</tr>
<tr>
<td>3</td>
<td>$750</td>
<td>100%</td>
<td>$750</td>
<td>90%</td>
</tr>
<tr>
<td>4</td>
<td>$1,500</td>
<td>80%</td>
<td>$2,000</td>
<td>80%</td>
</tr>
<tr>
<td>5</td>
<td>$1,500</td>
<td>90%</td>
<td>$2,500</td>
<td>80%</td>
</tr>
<tr>
<td>6</td>
<td>$2,000</td>
<td>100%</td>
<td>$2,000</td>
<td>80%</td>
</tr>
<tr>
<td>7</td>
<td>$2,500</td>
<td>80%</td>
<td>$4,500</td>
<td>70%</td>
</tr>
<tr>
<td>8</td>
<td>$2,750</td>
<td>90%</td>
<td>$5,500</td>
<td>70%</td>
</tr>
<tr>
<td>9</td>
<td>$3,500</td>
<td>100%</td>
<td>$3,500</td>
<td>70%</td>
</tr>
<tr>
<td>10</td>
<td>$5,000</td>
<td>80%</td>
<td>$6,400</td>
<td>60%</td>
</tr>
<tr>
<td>11</td>
<td>$5,500</td>
<td>90%</td>
<td>$6,400</td>
<td>60%</td>
</tr>
<tr>
<td>12</td>
<td>$6,350</td>
<td>100%</td>
<td>$6,350</td>
<td>60%</td>
</tr>
</tbody>
</table>

Medicaid Expansion

Impact of Supreme Court Ruling

- States cannot be required to expand Medicaid programs whose HHI is less than 138% of FPL in order to continue to receive Medicaid funds for current programs.

- Medicaid eligible employees are not eligible for subsidies, eliminating employers exposure to penalties.
Medicaid Expansion States

To Date, 17 States Plan to Expand Medicaid Eligibility, 9 Will Not Expand, and the Remainder Are Undecided
Health Care Reform - Analyze

- What are your options?
- Have you done the math?
- What is the estimated household income distribution?
- What is the potential impact of the health plan’s in and out-migration…specifically due to HCR?
- What are the tax implications of your decision?
- With HCR, what is the future viability of your health plan?
### Small Employer Impact

<table>
<thead>
<tr>
<th>Pre – Reform</th>
<th>Post – Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Premium Rating:</strong> Purpose is to match rate (premium) to the risk and minimize <em>Adverse Selection</em></td>
<td><strong>Premium Rating:</strong> Marketplace moves to adjusted community rating</td>
</tr>
</tbody>
</table>

**Can rate by:**

- Demographics (age/sex) (6:1)
- Family composition
- Area
- Tobacco use
- Group size
- Industry
- Health underwriting or Experience rating

**Can rate by:**

- Area
- Age (3:1)
- Family status
- Smoking status (1:5:1)
- *(No Health Underwriting)*
## Large Employer Impact

<table>
<thead>
<tr>
<th>Pre – Reform</th>
<th>Post – Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employer Choice without penalty</strong></td>
<td><strong>If Shared Responsibility Rules are not met employer penalties may apply</strong></td>
</tr>
<tr>
<td>▪ Whether to offer coverage to employees</td>
<td>▪ Offer coverage to at least 95% of Full Time Employees – 30 hrs</td>
</tr>
<tr>
<td>▪ Definition of employee and dependent eligibility</td>
<td>▪ Affordable Coverage</td>
</tr>
<tr>
<td>▪ Determination of benefit waiting period</td>
<td>▪ 60% Actuarial Value</td>
</tr>
<tr>
<td>▪ Benefit Plan Design</td>
<td>▪ 90 day Waiting Period</td>
</tr>
<tr>
<td>▪ Employee premium contributions</td>
<td>▪ Safe Harbor Measurement / Stability period for Variable Hour Employees</td>
</tr>
<tr>
<td></td>
<td>▪ Dependent Coverage</td>
</tr>
</tbody>
</table>
Employer HCR Cost Drivers

**Participation Risk Considerations**
- Migration
  - Affordable coverage
  - Income level / marital status
  - Medicaid Expansion
  - Reduce hours to part-time status
  - Cost of offering coverage

**Compliance Risk Considerations**
- Coverage below minimum value
  - Increase to 60% actuarial value
- Coverage unaffordable
  - Cost savings from out-migration
  - Penalty Exposure
Employer HCR Cost Drivers

Financial Assessments
- Transitional Reinsurance Fees
- Health Insurer Assessment
- 2018 Excise Taxes

Additional Costs
- Benefit Mandates
- Administration Costs
- Pent up demand for services
- Provider Cost Shifting
- Community Rating
Employer Summary

- Tax Exempt Employer

- Health Care Reform Financial Risk Factors
  - In-Migration Participation
  - Employer Penalties
  - Fees & Taxes
  - Risk for Excise tax in 2018

- Opportunities
  - Optimize Exchange Subsidy Eligibility
  - Alternative Plan Design(s)
  - Modify Contributions
  - Communication & Wellness Initiatives
Health Care Reform Impact Projection

Projected Total Health Plan Costs By Year ($ Millions)

- **Pre-Reform**
  - 2013: $4.9
  - 2014: $5.3
  - 2015: $5.7
  - 2016: $6.2
  - 2017: $6.7
  - 2018: $7.2

- **Post-Reform**
  - 2013: $4.9
  - 2014: $5.5
  - 2015: $6.1
  - 2016: $6.7
  - 2017: $7.3
  - 2018: $8.0
Employer Summary

- Mid Size Manufacturing Company

- Health Care Reform Financial Risk Factors
  - Fees & Taxes
  - In-Migration Participation
  - Employer Penalties
  - Risk for Excise tax in 2018

- Opportunities
  - Alternative Plan Designs
  - Modify Contributions
  - Communication & Wellness Initiatives
Figure 1
Projected Total Health Plan Costs (Employee and Employer)
CY 2013 – CY 2018
With and Without Healthcare Reform

Projected Total Health Plan Costs By Year ($ Millions)

Post-Reform
Pre-Reform

2013 2014 2015 2016 2017 2018
Health Care Reform - Determine

- What is the competitive landscape within your market or industry?
- How is your health plan positioned to recruit and retain talent?
- How will you communicate decisions to your employees?
- How does your Business Philosophy support Total Rewards/Benefits Offerings?
- Do you have executive support?
PPACA Moving & Inter-related Parts

- Compliance
- Financial Impact Strategy
- Plan Value to Employees
- Medicaid Expansion & Exchange Options
What is your current healthcare strategy?

Does your healthcare strategy align with business goals?

With the economic fluctuations, potential changes in legislation and internal & external cost pressures, how will you align with your business strategy?
What Path Will You Choose?

PAY
Exit and pay penalties

STAY
Maintain Status Quo

PLAY
New Rules – New Field

Factors
- Company/Culture
- Value of Benefits to Employees
- Recruitment/Retention
- Compliance Strategy
- Business Strategy
- Resources
- Wellness Focus
- Demographics
- Continued Risk
- Trend Mitigation

Implications
Apply Regardless of Path
Final Thoughts

Understand & Prepare Now
• Change is upon us and requires immediate attention
• Preparation for 2014 and beyond demands the need to understand the financial costs, administrative burden and impact to employees
• Develop a strategy to minimize risk and maximize opportunity

Regulatory Uncertainty
• Treatment of Wellness Discounts
• Non-Discrimination Testing (Section 2716)
• Implementation Schedule

Employee Communication – Even Greater Need