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

- How familiar are you with HCR?
- Are you aware of how the employer mandates are established?
- What is affordable coverage?
- What are the insurance exchange options?
- What are the premium subsidies, employer taxes and penalties and how they might impact your organization?
- How will state’s decision to expand Medicaid impact your position?
Understand the Landscape

2013 Impact

- 2,500 FSA contribution cap (plan years on or after Jan. 1, 2013)
- Patient Centered Outcomes Research Institute (PCORI) fees (July 2013)
- Employer Exchanges Notification (March 2013) **DELAYED**
- Increased Medicare Tax ($200K individual / $250K couples)
- Initial enrollment period for Exchanges begin (Oct 2013)
Understand the Landscape
2014 Impact

- Health Insurance Exchange

- Individual Mandate
  - ESI
  - Exchange Coverage
  - No coverage – pay the penalty

- Employer Mandate / Shared Responsibility
  - Employers with 50 or more FTE’s
  - Average 30 service hours per week
  - Minimum Actuarial Value
  - Affordable

- Medicaid Expansion
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)
Public State Exchanges

State Decisions For Creating Health Insurance Exchanges in 2014, as of February 8, 2013

- Default to Federal Exchange
- Declared State-based Exchange
- Planning for Partnership Exchange

Apex benefits
### 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 Businesses (SHOP)</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>
# 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>$1,000</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>$1,500</td>
<td>80%</td>
<td>$4,500</td>
<td>70%</td>
</tr>
<tr>
<td>8</td>
<td>$2,000</td>
<td>90%</td>
<td>$5,500</td>
<td>70%</td>
</tr>
<tr>
<td>9</td>
<td>$3,000</td>
<td>100%</td>
<td>$3,000</td>
<td>70%</td>
</tr>
<tr>
<td>10</td>
<td>$3,500</td>
<td>80%</td>
<td>$6,000</td>
<td>60%</td>
</tr>
<tr>
<td>11</td>
<td>$4,000</td>
<td>90%</td>
<td>$6,000</td>
<td>60%</td>
</tr>
<tr>
<td>12</td>
<td>$4,500</td>
<td>100%</td>
<td>$4,500</td>
<td>60%</td>
</tr>
</tbody>
</table>

Based on Federal Actuarial Calculator released November 2012. Guidance indicated calculations for bronze and silver plan designs are preliminary.
Eligibility for premium subsidy is based on Modified Adjusted Household Income.

HHI must be between 100 – 400% FPL to qualify for subsidy.
### Premium Subsidy Overview

<table>
<thead>
<tr>
<th>Income Level (% above FPL)</th>
<th>Maximum Premium as a % of HHI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 138%</td>
<td>2%</td>
</tr>
<tr>
<td>138 – 150%</td>
<td>3 - 4%</td>
</tr>
<tr>
<td>150 – 200%</td>
<td>4 – 6.3%</td>
</tr>
<tr>
<td><strong>200 – 250%</strong></td>
<td><strong>6.3 – 8.05%</strong></td>
</tr>
<tr>
<td>250 – 300%</td>
<td>8.05 – 9.5%</td>
</tr>
<tr>
<td>300 – 400%</td>
<td>9.5%</td>
</tr>
</tbody>
</table>

- Premium cost of the second lowest “Sliver” based Exchange benefit offering
- Subsidy not available to Medicaid Eligible
- Greatest subsidies for HHI below 250% FPL
Employer Mandate

### Pre – Reform

*Employer Choice without penalty*

- Whether to offer coverage to employees
- Definition of employee and dependent eligibility
- Determination of benefit waiting period
- Benefit Plan Design
- Employee premium contributions

### Post – Reform

*If Shared Responsibility Rules are not met employer penalties may apply*

- Offer coverage to at least 95% of Full Time Employees – 30 hrs
- Affordable Coverage
- 60% Actuarial Value
- 90 day Waiting Period
- Safe Harbor Measurement / Stability period for Variable Hour Employees
- Dependent Coverage
## 2014 Employer Penalties

### Healthcare Reform Coverage Tier

<table>
<thead>
<tr>
<th>FPL Range</th>
<th>Employer Plan Contribution % of HHI</th>
<th>Tier Description</th>
<th>Coverage Not Offered</th>
<th>Non-Qualified Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0% to 138%</td>
<td>Not Applicable</td>
<td>Medicaid Eligible</td>
<td>$2,000 Penalty Per FTE</td>
<td>No Penalty</td>
</tr>
<tr>
<td>139% to 400%</td>
<td>&gt;9.5% of HHI</td>
<td>Unaffordable Coverage</td>
<td>$2,000 Penalty Per FTE</td>
<td>$3,000 Penalty for Each FTE Receiving Premium Subsidy</td>
</tr>
<tr>
<td></td>
<td>&lt;9.5% of HHI</td>
<td>Affordable Coverage/ &lt;60% Actuarial Value</td>
<td>$2,000 Penalty Per FTE</td>
<td>$3,000 Penalty for Each FTE Receiving Premium Subsidy</td>
</tr>
<tr>
<td></td>
<td>&lt;9.5% of HHI</td>
<td>Affordable Coverage/ &gt;60% Actuarial Value</td>
<td>$2,000 Penalty Per FTE</td>
<td>No Penalty</td>
</tr>
<tr>
<td>400%+</td>
<td>Not Applicable</td>
<td>Not Eligible for Subsidy</td>
<td>$2,000 Penalty Per FTE</td>
<td>No Penalty</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.
**Employer Perspective**

- Employee are not eligible for Federal Premium Subsidy if:
  - Minimum benefit plan of 60% actuarial value
  - Coverage is considered affordable

- One of Three IRS Safe Harbors for “Affordability”

<table>
<thead>
<tr>
<th>FPL</th>
<th>Employee Yearly w-2 Income</th>
<th>Monthly Income</th>
<th>Hourly Wage</th>
<th>Maximum monthly premiums (9.5%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>$11,490</td>
<td>$958</td>
<td>$7.37</td>
<td>$90.01</td>
</tr>
<tr>
<td>138%</td>
<td>$15,856</td>
<td>$1,321</td>
<td>$10.16</td>
<td>$125.50</td>
</tr>
<tr>
<td>250%</td>
<td>$28,725</td>
<td>$2,394</td>
<td>$18.42</td>
<td>$227.43</td>
</tr>
<tr>
<td>400%</td>
<td>$58,875</td>
<td>$4,906</td>
<td>$37.74</td>
<td>$466.07</td>
</tr>
</tbody>
</table>

Based employee working 130 hours per month
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

State Commitment to Expand Medicaid Eligibility

- **Will Expand (17)**
- **Will Not Expand (9)**
- **Leaning Yes (1)**
- **Leaning No (7)**
- **Undecided (17)**

Map of the United States showing the states' commitment to expand Medicaid eligibility.
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?
## Analyze the Impact

### Factors That Impact Plan Costs

<table>
<thead>
<tr>
<th>Participation Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Individual Mandate</td>
</tr>
<tr>
<td>• Auto-Enrollment</td>
</tr>
<tr>
<td>• Other Employer Plan Termination</td>
</tr>
<tr>
<td>• Adverse selection</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fees and Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Health Insurer Assessment</td>
</tr>
<tr>
<td>• Transitional Reinsurance Program</td>
</tr>
<tr>
<td>• Excise tax on high cost plans (2018+)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Premium Trend Escalation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Pent-up demand for services in 2014</td>
</tr>
<tr>
<td>• Provider cost shifting increase</td>
</tr>
<tr>
<td>• Health insurer cost shift</td>
</tr>
</tbody>
</table>
Large Group Case Study 1

Situation Considerations

- Tax Exempt Employer subject to the employer mandate in 2014
- Existing benefit plan meets actuarial value requirements
- A portion of the employees have unaffordable coverage
- Employer is at greatest financial risk for:
  - In Migration
  - Penalties
  - HCR fees & Taxes
- Due to the variable hour population, this employer will also incur additional administrative expenses not illustrated in this analysis
Professional Services firm subject to the employer mandate in 2014

Benefits and / or penalties will apply to a population 1097% greater than the number of employees currently eligible for coverage

It is expected that the employers cost will increase more than 500% in 2014 as a result of Health Care Reform

In-migration and adverse selection are the greatest cost factors contributing to 80% of the overall projected costs

Due to the variable hour population, this employer will also incur additional administrative expenses not illustrated in this analysis
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?
PPACCA Moving & Inter-related Parts

- Compliance
- Financial Impact Strategy
- Plan Value to Employees
- Medicaid Expansion & Exchange Options
Health Care Reform - Align

- 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