



# Healthcare Reform (PPACA) Where the Heck Are We?

Presented by:

Eugene Starks, BAS, Ltd.

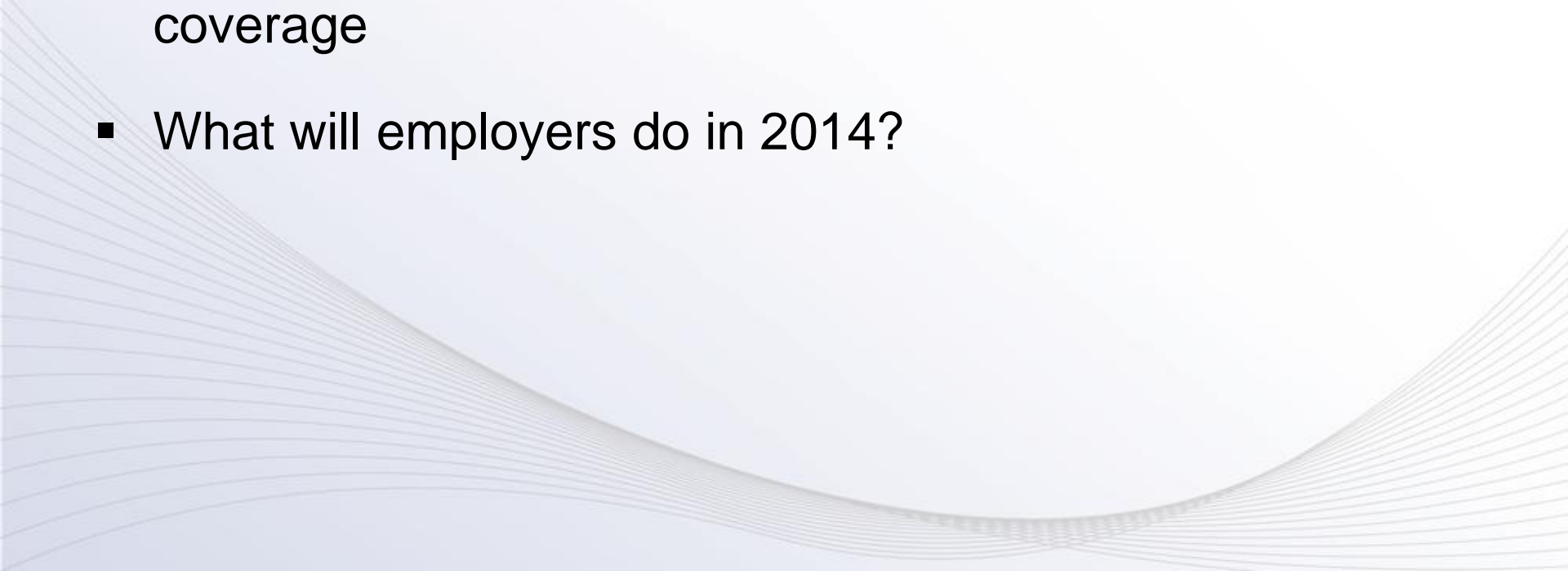
Michelle Fuller, BancorpSouth Ins. Services

Tom Canizaro, CFO, South Central Regional  
Medical Center



# What is the future of Employer Sponsored Health Plans?



- McKinsey Survey – 30% of employers will “definitely” drop coverage
  - Mercer Survey – 2% of employers will “very likely” drop coverage
  - What will employers do in 2014?
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# Recap on Health Reform Legislation



- President signed Patient Protection and Affordable Care Act (PPACA) on March 23, 2010
- Makes significant statutory changes affecting the regulation of and payment for many types of private health insurance – many insurance market reforms
- Will require almost all private sector employers to evaluate the health benefits they currently offer and consider whether they are compliant
- For those without access to employer coverage, new individual mandate to purchase and maintain minimum coverage
- Focuses on insurance market reforms and subsidies – does not really address the true cost of health care
- Bulk of the reforms take effect in 2014, but there are still many aspects of the law employers need to be cognizant of between now and then

# Political Impact



- Federal Election Results—Factors to Consider
  - Historic number of new legislators
  - Tremendous turn-over in staff and committees
  - Need to off-set repeal changes with other spending cuts
  - House actions are tempered by tight Democratic majority in the Senate and President Obama
  - GOP will need to balance delivering on promises now and goals for 2012
    - What realistic improvements can be made to PPACA in the short-term?
    - What may need to wait until 2012 and beyond?
  - *What will be the impact of the court challenges to PPACA?*
  - **How will the budget battles impact PPACA moving forward?**
- State Elections Impact Health Reform Too
  - Litigation (26-state suit, Virginia's independent challenge)
  - State impact on implementation (Medicaid, Exchanges)
  - Extreme variations in State political change—California to Wisconsin

# Immediate Insurance/Benefit Change Timeline for Employers



<h2>2010</h2>	<ul style="list-style-type: none"> <li>•Grandfathered Plans Take Effect</li> <li>•Small Business Tax Credits</li> <li>•Federal High Risk Pool</li> <li>•Federal Retirement Reinsurance Program</li> <li>•Federal Premium Rate Oversight</li> <li>• Sept. 23<sup>rd</sup> Reforms for All Plans-- Dependent Coverage to Age 26, No Preexisting Condition Limitations for Children, Rescission Restrictions, Annual and Lifetime Limit Restrictions</li> <li>•Sept. 23<sup>rd</sup> Reforms for Non-Grandfathered Plans--Preventive Care, 105h Nondiscrimination (<i>enforcement delayed</i>), New coverage appeals process requirements</li> </ul>
<h2>2011</h2>	<ul style="list-style-type: none"> <li>•FSAs/HRAs/HSAs — OTC drugs not allowed without Rx</li> <li>•HSA distribution tax increases</li> <li>•Simple cafeteria plan rules</li> <li>•Medical Loss Ratio requirements begin.</li> <li>•Small business wellness grants should be made available, but have not been yet</li> </ul>
<h2>2012</h2>	<ul style="list-style-type: none"> <li>•New longer Summary Plan Description requirements (60 day notice of material change)</li> <li>•New quality reporting requirements (to HHS and beneficiaries) for all employer plans and all individual and group carriers</li> <li>•Delayed W2 Reporting begins (requirement is optional for employers who issue less than 250 W2s until further notice)</li> <li>•CLASS Act options for the new national long-term care program should be announced by HHS. Participating employers must auto-enroll employees (<b>Program may be tabled indefinitely. NAHU Update</b>)</li> <li>•Employers whose carrier did not meet MLR standards may receive a rebate. Carriers responsible for ensuring that any rebate is shared with employees based on employer-contribution standards.</li> <li>•New Medicare Taxes on unearned income and higher income employees and self-employed</li> </ul>
<h2>2013</h2>	<ul style="list-style-type: none"> <li>• FSA contributions capped at \$2,500</li> <li>•New federal premium tax on fully insured and self-insured group health plans to fund comparative effectiveness research program begins. It imposes an annual fee on private insurance plans equal to two dollars for each individual covered.</li> <li>•Exchange notification requirements for employers</li> </ul>

# New Changes to PPACA Requirements for Employers



- Enforcement delayed on 105 (h) non-discrimination rules for all fully insured non-grandfathered plans
  - IRS solicited comments in March
  - Guidance expected later this year
- W2 Reporting made optional for 2011
  - New Guidance Issued March 29 for 2012
  - Relief for smaller employers (those filing fewer than 250 W-2 forms) by making this requirement optional for them at least for 2012 and possibly longer (till more guidance is issued)
  - For larger employers includes information on how to report, what coverage to include and how to determine the cost of the coverage
- 1099 Reporting requirements repealed
- Employee Free Choice Voucher Program eliminated
- Most of the funding for Cooperative Plans eliminate

# The Big Year--PPACA in 2014

- Individual Mandate
- Employer Mandate
- Health Insurance Exchanges
- Other significant changes:
  - Modified community rating
  - Individual market guaranteed issue
  - Subsidies available for qualified individuals purchasing through the exchanges (If \$ is available)
  - New premium taxes on fully-insured plans
  - Essential benefit requirements
  - Deductible Limits for Small Businesses



# PPACA State Exchanges



- State-based health insurance exchanges
  - Law requires the creation of and American Health Benefit Exchange (AHBE) (for individuals) and Small Business Health Options Program (SHOP) Exchange for small employers up to 100 lives
  - States can combine their individual and small employer exchanges
  - Regional sub-exchanges optional
  - States can choose to expand their exchanges to serve employer groups of 100+ in 2017
- Not Optional—If a state doesn't create one, federal government will
- Transparent and more standardized benefit packages
- Offer choice of plans, carriers, networks (comparison shopping)
- Develop menu of choices based on quality, access, and premium costs
- **Premium tax credits only available for individuals purchasing through an exchange, not those in an employer group**

# State Exchanges



## Small Businesses

If up to 100 employees,  
can buy thru Exchange

*Self-insured plans  
not eligible to  
Participate*

A web portal  
"marketplace"  
for health  
insurance

## Individuals

*(no subsidies for ones offered  
employer-based coverage,  
unless that coverage is  
"unaffordable")*

## Federal Government

- sets criteria for plan participation and purchaser eligibility
- provides subsidies for small businesses and individuals
- sets up Exchange if a state fails to

## States

- each sets up own Exchange
- will be involved in *premium reasonableness* reviews; can approve/reject as provided under state law

# Employer Responsibility Requirement – For “Play or Pay” Tax



- Effective starting January 1, 2014
- Employer must count all full-time employees and part-time employees – on a full-time equivalent basis – in determining if they have 50 or more employees
  - Certain seasonal workers are not counted in determining if employer has 50 workers
  - Full-time = 30 or more hours per week, determined on a monthly basis
- Penalties assessed for “no coverage” or coverage that is “not affordable”

# Will the Employer Pay A Penalty? *beginning in 2014*

## Are you a large employer?

- at least 50 full-time equivalent workers
  - including full-time [30+hours per week] and part-time workers [prorated]
  - excluding seasonal workers [up to 120 days per year]

yes

no

Are any of your full-time employees in an exchange plan and receiving a premium credit?

yes

no

Do you have more than 30 full-time employees?

yes

no

Do you provide health insurance?

yes

no

**No penalty**

### Pay Monthly Penalty, lesser of:

$\frac{1}{12} \times \$2,000 \times$   
(Number of full-time employees - 30)

or

$\frac{1}{12} \times \$3,000 \times$   
(Number of full-time employees who receive credits for exchange coverage)

### Pay Monthly Penalty

$\frac{1}{12} \times \$2,000 \times$   
(Number of full-time employees - 30)

# Example

- ABC Corp.
  - Applicable Large Employer
  - Does not offer coverage
  - At least one full-time employee received subsidized coverage through an Exchange in January of 2014
- 90 full-time EEs - 30-employee reduction = 60
- $60 \times \$166.67 = \$10,000.20$  monthly tax liability

# “Unaffordable Coverage”



- Employer-sponsored coverage will be considered “unaffordable” in either of the following situations:
  - 1. When the employer’s plan share of the total allowed costs of benefits is **less than 60%**, or
  - 2. The premium being charged to the employee exceeds 9.5% of the **employee** income
- Penalty Amt. = \$250 only for EEs that receive coverage through the Exchange
  - No 30-employee reduction

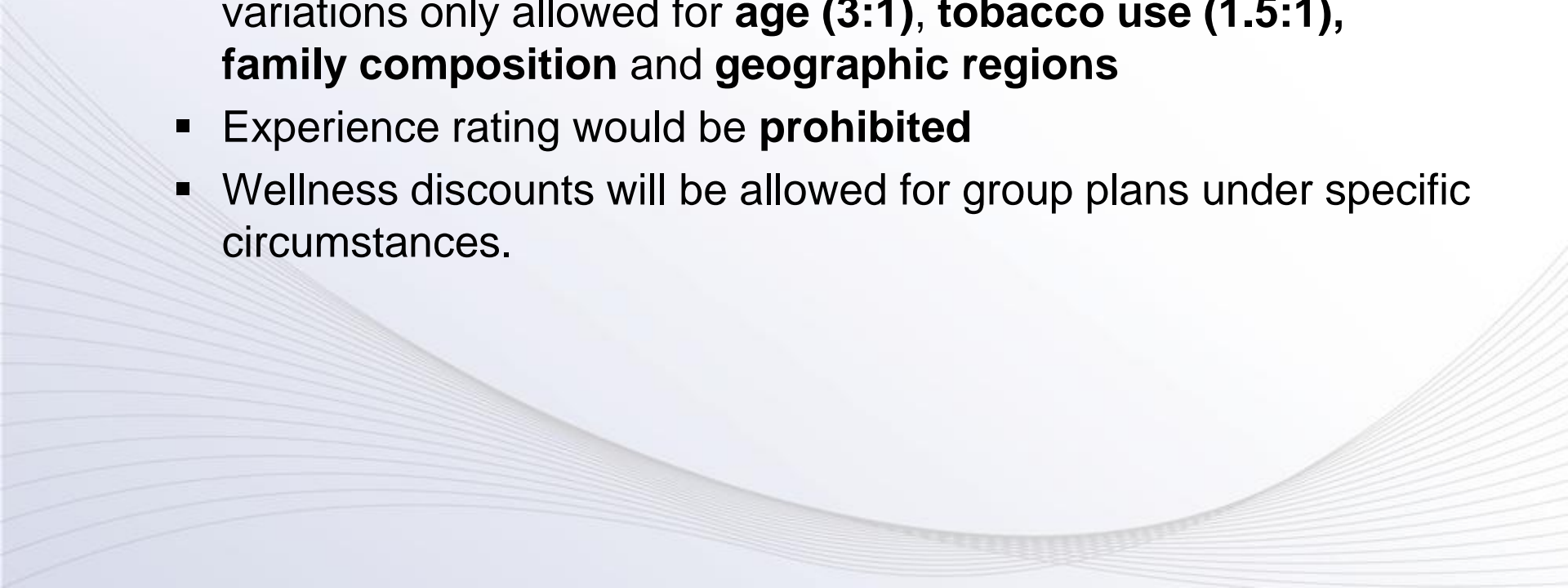


## 2014 Changes to the Way Employer Plan Premiums Are Calculated (Underwriting Model)

- Changes for all **fully insured** group plans:
  - All guaranteed-issue with no preexisting condition limitations
  - Annual and lifetime limits will be fully prohibited, including for grandfathered plans
  - Size of a small-employer group will be redefined to one to 100 employees (although states may elect to keep the size of a small groups at 50 employees until 2016)

# 2014 Changes to the Way Employer Plan Premiums Are Calculated



- Market reforms for **fully insured** small groups up to 100 employees (and any larger fully insured groups if a state allows groups of 100+ in their exchange):
    - Strict modified community rating standards with premium variations only allowed for **age (3:1)**, **tobacco use (1.5:1)**, **family composition** and **geographic regions**
    - Experience rating would be **prohibited**
    - Wellness discounts will be allowed for group plans under specific circumstances.
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# Small Business Rate Formula



**Scenario:** 11 life group. Demographic changes. No ongoing conditions / best risk.

## New Business 2010

<b>1</b>	o	<u>Manual Rate</u>	\$315.00 (2009)
	o	x Trend	1.12
	o	x Size Factor (2-50 only)	1.00
	o	x Industry Factor	1.00
	o	x Area Factor	.98
<b>2</b>	o	x Age/Sex Factor	1.06
<b>3</b>	o	x Medical UW Adjustment	.85
	o	= New Business Rate	\$311.52

## Renewal 2011

o	Change in Manual Rate (Trend)	1.12
o	x Change in Size Factor	1.00
o	x Change in Industry Factor	1.00
o	x Change in Area Factor	1.00
o	x Change in Age/Sex Factor	1.03
o	x Relative Risk Adj.	1.03
o	= Renewal Rate Change	1.19 or +19%
o	Renewal Rate =	\$370.15

# Small Business Rate Formula



**Scenario:** 11 life group. Demographic changes. No ongoing conditions / best risk.

## New Business 2013

○	<u>Manual Rate</u>	\$315 (2011)
○	x Trend	1.12
○	x Size Factor (2-50 only)	1.00
○	x Industry Factor	1.00
○	x Area Factor	.98
○	x Age/Sex Factor	1.06
○	x Medical UW Adjustment	.85
○	= New Business Rate	\$311.52

## Renewal 2014 – Comm. Rating

○	Change in Manual Rate (Trend)	1.12
○	x Change in Size Factor	1.00
○	x Change in Industry Factor	1.00
○	x Change in Area Factor	1.00
○	x Change in Age/Sex Factor	1.03
○	x Adj. from .85 to 1.00	1.18
○	= Renewal Rate Change	1.36 or +36.0%
○	Renewal Rate =	\$424.06

# Small Business Rate Formula



**Scenario:** 11 life group. Demographic changes. Significant Ongoing Conditions / Max Rated

## New Business 2013

○	<u>Manual Rate</u>	\$315 (2011)
○	x Trend	1.12
○	x Size Factor (2-50 only)	1.00
○	x Industry Factor	1.00
○	x Area Factor	.98
○	x Age/Sex Factor	1.06
○	x Medical UW Adjustment	1.25
○	= New Business Rate	\$458.11

## Renewal 2014 – Comm. Rating

○	Change in Manual Rate (Trend)	1.12
○	x Change in Size Factor	1.00
○	x Change in Industry Factor	1.00
○	x Change in Area Factor	1.00
○	x Change in Age/Sex Factor	1.03
○	x Adj. from 1.25 to 1.00	.80
○	= Renewal Rate Change	0.92 or -8.0%
○	Renewal Rate =	\$422.78

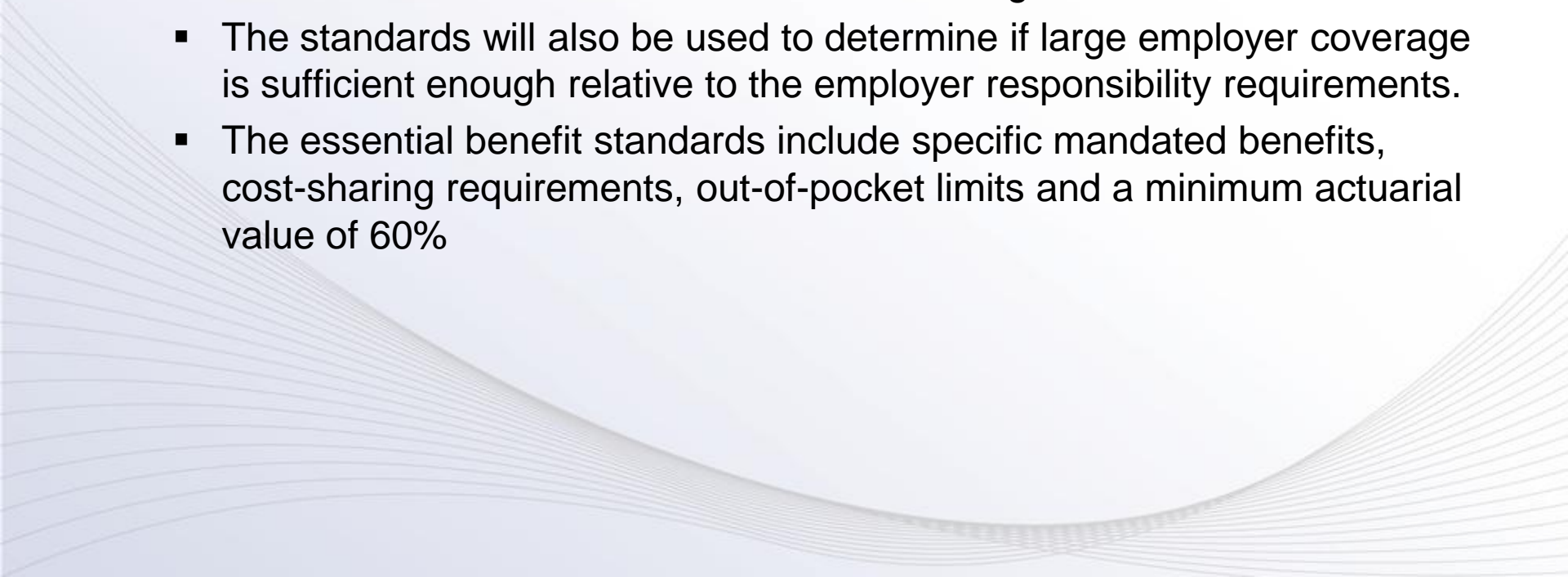


## Other Employer Plan Reforms in 2014

- Employee waiting periods of more than 90 days are prohibited for all plans, including grandfathered plans.
- Auto enrollment for groups of 200+ presumed to take effect
- Employer-sponsored wellness program rules for all employer group plans under HIPAA improve and employers can increase the value of workplace wellness incentives up to 30% of premiums, with HHS discretion to increase the incentives to 50%
- Small businesses prohibited from buying coverage with deductibles in excess of \$2000 individual/\$4000 family  
*(What does that do to the HSA Product?)*

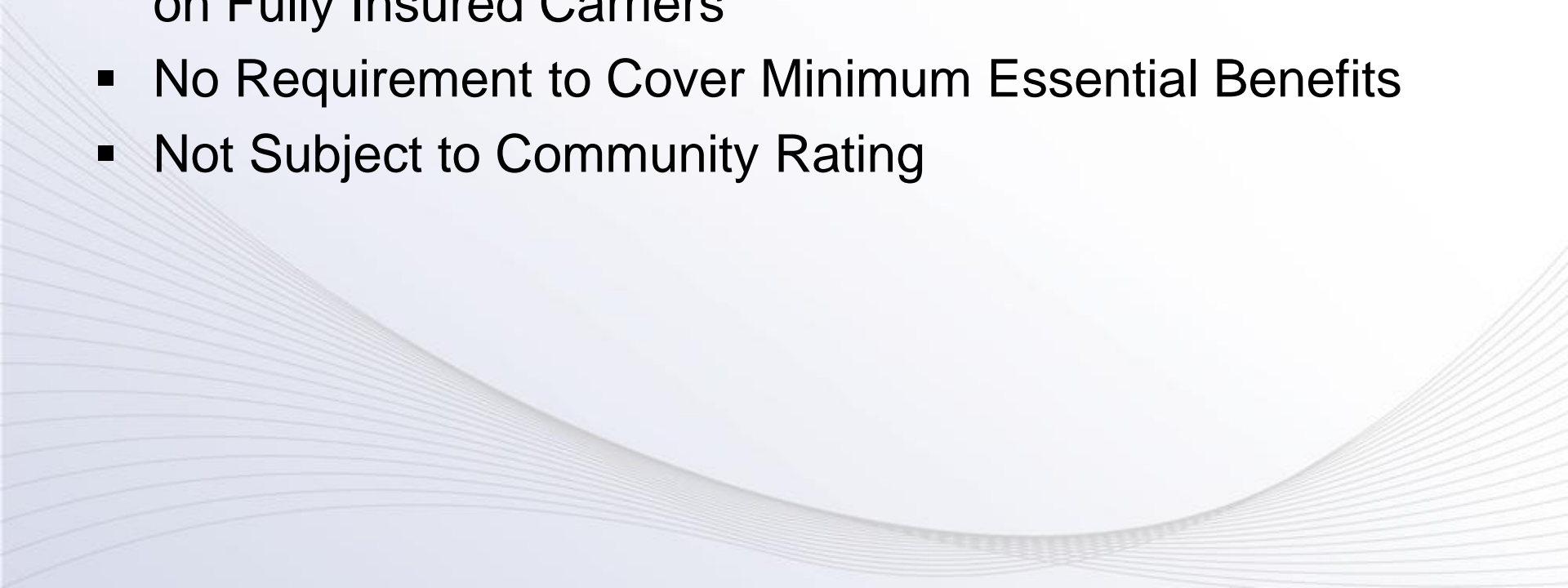
# Other Employer Plan Reforms in 2014



- The essential benefit standards for qualified coverage begin.
    - Standard will apply to all **fully insured group and individual products** to be sold both inside and outside the exchanges.
    - The standards will also be used to determine if large employer coverage is sufficient enough relative to the employer responsibility requirements.
    - The essential benefit standards include specific mandated benefits, cost-sharing requirements, out-of-pocket limits and a minimum actuarial value of 60%
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# Exemptions Provided for Self-Insured Plans



- No Requirement for Minimum Medical Loss Ratio
  - No Requirement for Review of Health Plan Premium Increases
  - Self-insured Plans Not Required to Pay Fees Imposed on Fully Insured Carriers
  - No Requirement to Cover Minimum Essential Benefits
  - Not Subject to Community Rating
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# PPACA in 2018



- Cadillac tax goes into effect for all group plans, including self-insured plans. The tax would be paid by the insurer in the case of a fully insured group or the TPA in a self-insured arrangement, but would be passed on directly to the employer.
- 40% excise tax on insurers of employer-sponsored health plans with aggregate values that exceed \$10,200 for singles and from \$27,500 for families takes effect in 2018
- Arbitrary numbers and lack of adequate indexing may be problematic



# What is the future of Employer Sponsored Health Plans?

- **What will employers do in 2014?**
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## Self-funded plans draw small-firm interest

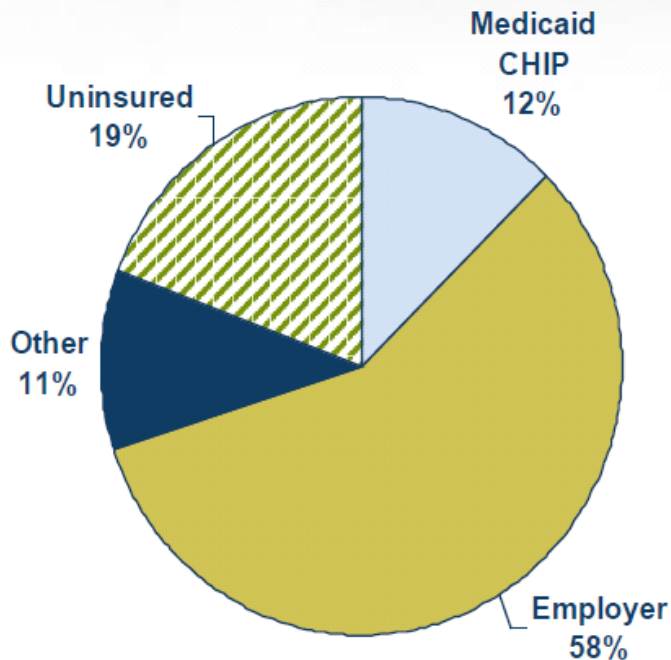
“The sickest groups will remain fully funded and rely on community rates and mandated medical-loss ratios,” said Jeff Hadden, a partner at LoCascio Hadden & Dennis, LLC. He added, “If groups are self-funded with appropriate levels of protection in place, they have more control over their costs and don’t have to be driven by the community rate.”

Source: J.K. Wall, “Self-funded Plans Draw Small Firm Interest,” [Indianapolis Business Journal](http://www.ibj.com/article/print/articleID=26071), March 23, 2011, <http://www.ibj.com/article/print/articleID=26071>

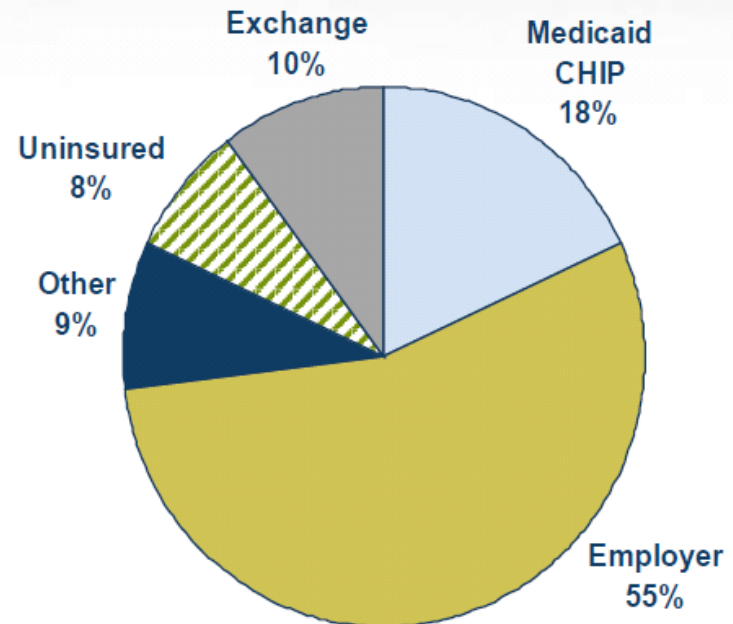
# CBO 2019 Estimates of Insurance Coverage



## Baseline: Without PPACA



## With PPACA



Among nonelderly (under age 65). 'Exchanges' include 2% (5M) that CBO counted as 'Employer.' If excluding unauthorized immigrants, CBO's uninsured projection for PPACA would be 6%.



## Healthcare Reform (PPACA)

### Where the Heck Are We?

**What is the future of Employer Sponsored Health Plans?**

**Questions... Answers?**

