

Health Care Reform

Rotary Club of South Lake Tahoe
February 27th, 2013



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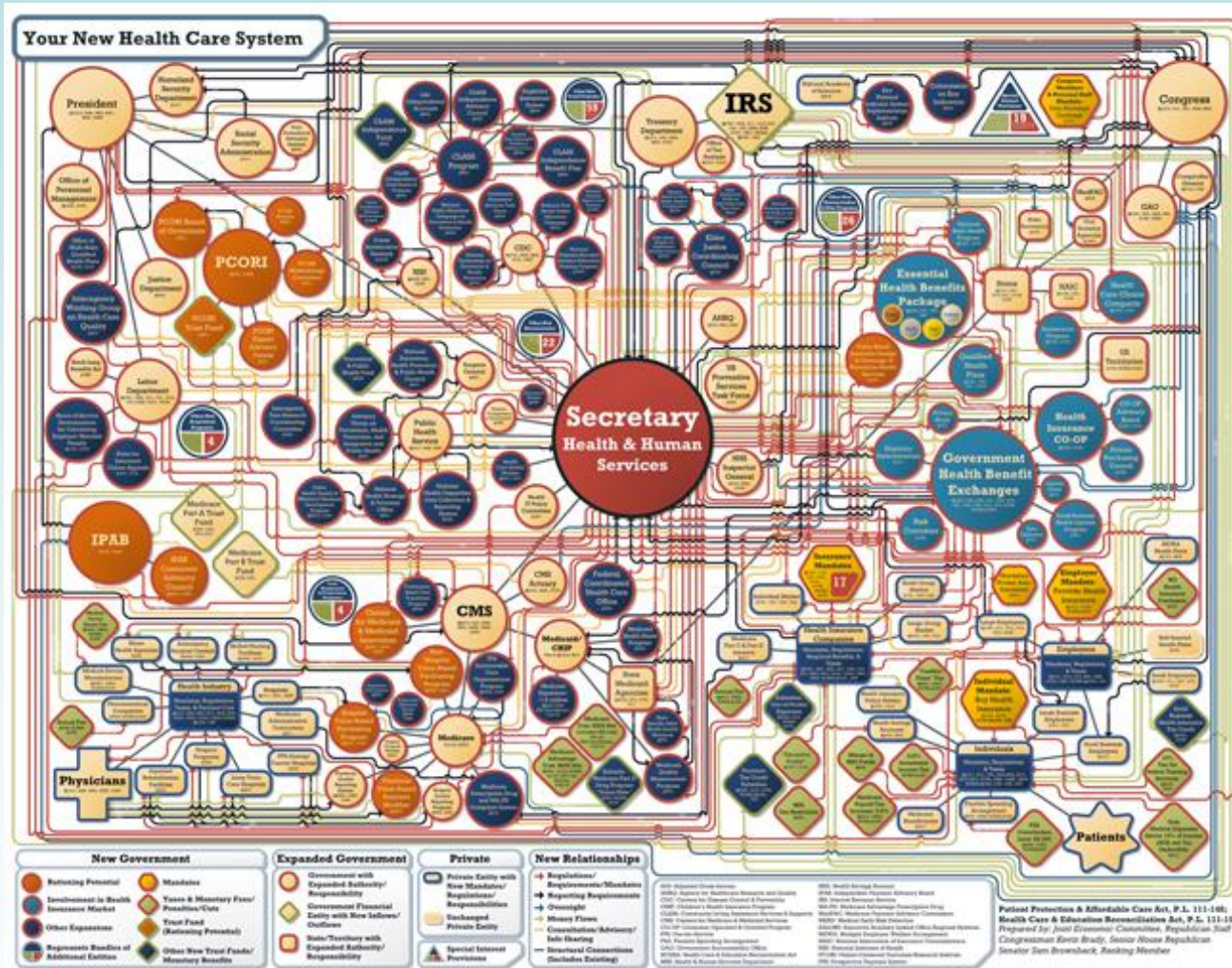
The Patient Protection and Affordable Care Act (“ACA”)

- On March 23, 2010, the ACA became federal law, initiating the most significant change in the U.S. health care since the establishment of Medicare in 1965.
- The ACA was challenged on constitutional grounds and went before the Supreme Court in the case of *National Federation of Independent Businesses v. Sebelius*.
 - The Supreme Court issued its ruling on June 28, 2012.

ACA Law

- ACA law is;
 - 2,700 pages
 - Over 13,000 pages of regulations - and growing!
 - HHS:
 - 51 Regulation Releases
 - 61 Guidance Releases (including Technical Bulletins, FAQ's, etc.)
 - IRS:
 - 18 Regulation Releases
 - 21 Revenue Procedures, Rulings & Treasury Decisions
 - 54 Notices and Other Releases
 - DOL:
 - Too many to count - including Technical Releases, FAQ's, etc.

ACA org chart... HUH?



Someone please hit the easy
button.....@#*#!!#

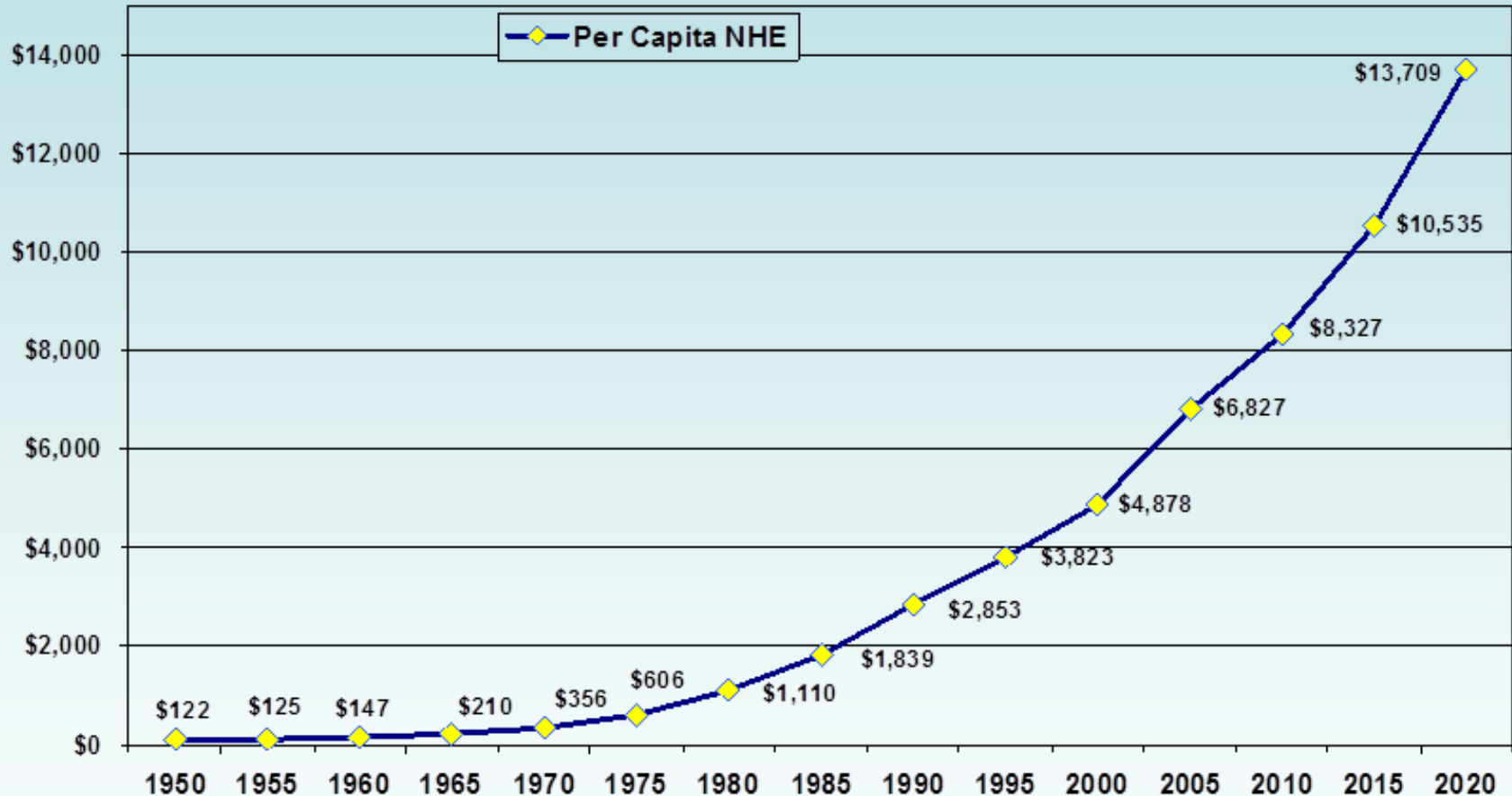


How did we get here?

- Americans spent \$2.5 trillion on health care in 2009, - 17.6% of national economy. 2nd in the world in relation to GDP.
- By 2022 health care spending will be \$5.2 trillion - 21% of U.S. GDP.
- Uninsured in 2009 - Nationally 50 million
- California 7 million (4 million are undocumented immigrants).
- 60% of the uninsured access health care annually.
- In 2008 health care providers received no compensation for \$43 billion of the \$116 billion in care they administered to the uninsured.

Per Capita Annual HC Cost

Annual health care cost in excess of \$6,000 per person in the U.S.¹



Source: 1 Centers For Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, U.S. Department of Commerce, Bureau of Economic Analysis

How did we get here?

If Food Were Health Care

If food prices had risen at the same rates as medical inflation since the 1930's, we would be paying an astronomical amount for common grocery items as evidenced below.

1 dozen eggs \$ 80.20
1 pound apples \$ 12.23
1 pound sugar \$ 13.70
1 roll toilet tissue \$ 24.20
1 dozen oranges \$ 107.90
1 pound butter \$ 102.07
1 pound bananas \$ 16.04
1 pound bacon \$ 122.48
1 pound beef shoulder \$ 43.57
1 pound of coffee \$ 64.17

10 item total \$ 586.56

Source: American Institute for Preventive Medicine, 2007



Goal of the ACA

- **Intended to increase number of Americans with health coverage**
 - “Encouragement” for employers to offer coverage - Like a hammer!
 - Penalties for individuals without coverage
 - Market reforms to improve access
 - Expanded Medicaid eligibility

2010-2013 ACA TIMELINE

2012 - Minimum Loss Ratio

First of the rebates were issued August 2012

The Minimum Loss Ratio is:

- **85%** for **large group** plans (>101 employees).
- **80%** for **small group** plans (≤ 100 employees) and individual plans.
- Carriers will have to issue a **premium rebate** for plans that fail to meet the Minimum Loss Ratio requirements.
- Applies to all fully insured and grandfathered plans. Self-insured plans are exempt.

2014 ACA Timeline

2014 Provisions

- **Pre-Existing Conditions** – prohibited for **all** members; must guarantee issuance and must be renewable
- **Definition of Full-Time Employee** – employee averages 30 or more hours per week.
- **Wellness Incentives**
 - Employers may vary premiums based on participation in health programs
 - **Up to 30% variance**
- **Waiting Period** – may not be more than 90 days
- **Annual limits** – entirely prohibited for plan years beginning on or after 1/1/14.
- **Clinical Trials** – Plans must provide coverage for treatment of cancer or other life-threatening diseases

Individual Mandate- 2014

- **Requires all American citizens and legal residents to purchase qualified health insurance.**
- **Coverage considered qualifying for this purpose includes:**
 - Any employer-sponsored plan
 - Grandfathered individual and group health plans
 - Medicare and Medicaid plans
 - Military and veterans' benefits
 - Qualified Exchange plans



****Violators are subject to an excise tax penalty**

Individual Refusal to Purchase Coverage Penalty Table

| Household Income | 2014 Penalty | 2015 Penalty | 2016 Penalty |
|------------------|--------------|--------------|--------------|
| \$10,830 | \$108.30 | \$325.00 | \$695.00 |
| \$21,660 | \$216.60 | \$433.20 | \$695.00 |
| \$32,490 | \$324.90 | \$694.80 | \$812.25 |
| \$43,320 | \$433.20 | \$866.40 | \$1,083.00 |
| \$55,125 | \$551.25 | \$1,102.50 | \$1,378.13 |
| \$66,150 | \$661.50 | \$1,323.00 | \$1,653.75 |
| \$77,175 | \$771.75 | \$1,543.50 | \$1,929.38 |
| \$88,200 | \$882.00 | \$1,764.00 | \$2,205.00 |

State Based Exchanges

Effective no later than **1/1/2014**

Levels of coverage to be offered through the Exchange: Said to be ready October, 2013

- **Bronze Plan - Provides 60% of actuarial value of minimum qualifying coverage.**
- **Silver Plan - Provides 70% of actuarial value of minimum qualifying coverage.**
- **Gold Plan - Provides 80% of actuarial value of minimum qualifying coverage.**
- **Platinum Plan - Provides 90% of actuarial value of minimum qualifying coverage.**

2013 New Employer Discloser Obligation Regarding Exchanges

Employers must supply employees with written notice regarding:

- the existence of the Insurance Exchange(s),
- the services supplied by the Exchange,
- how the employee may contact the Exchange, and
- if the employer is not supplying qualifying coverage that the employee might qualify for subsidies in the exchange for the purchase of insurance

Effective date: At the time of hiring, or, with respect for current employees, on or before March 1, 2013 but was postponed.

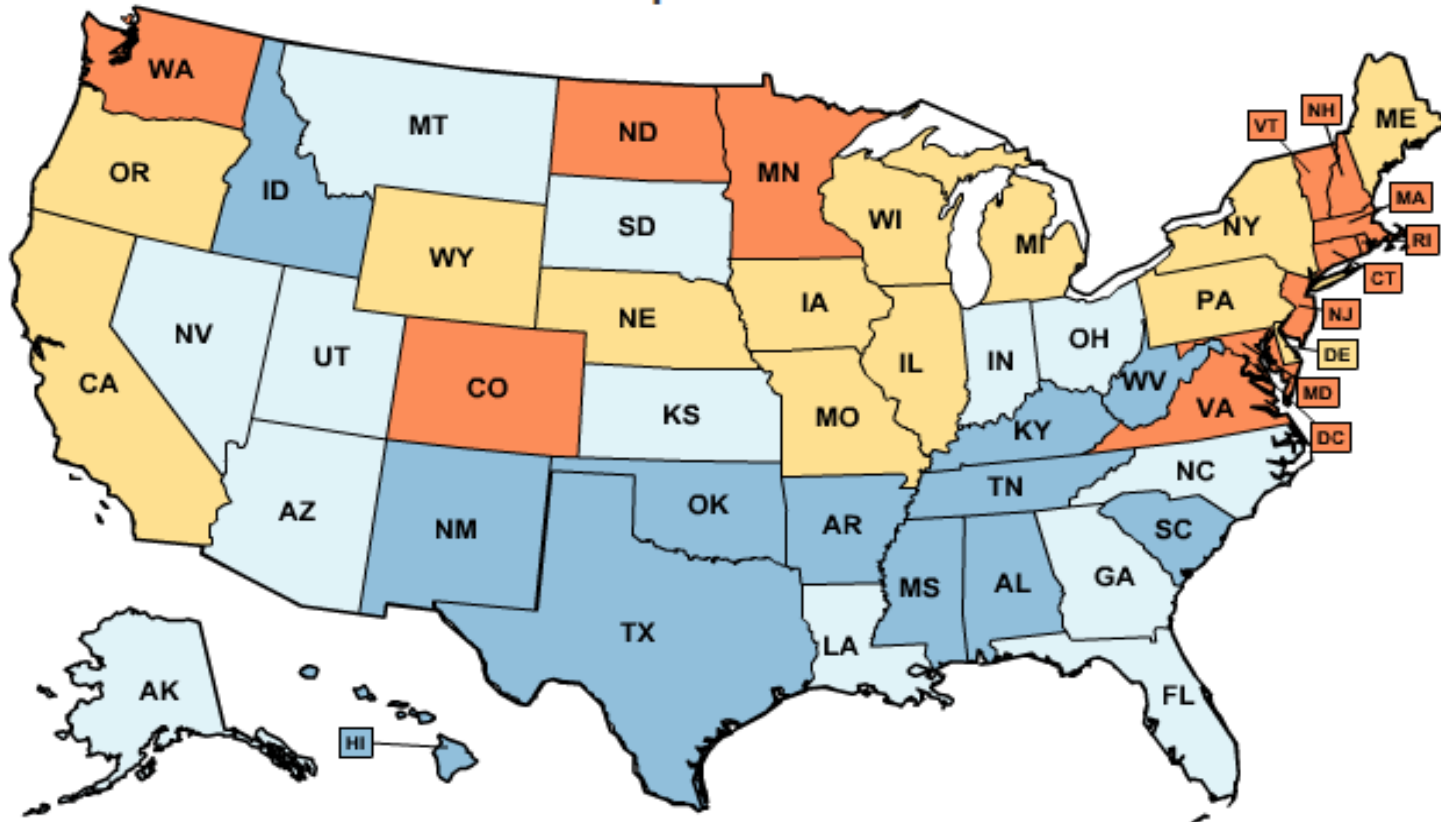


400% of Poverty level

| Household size | 400% |
|---------------------------------|----------|
| 1 | \$44,680 |
| 2 | 60,520 |
| 3 | 76,360 |
| 4 | 92,200 |
| 5 | 108,040 |
| 6 | 123,880 |
| 7 | 139,720 |
| 8 | 155,560 |
| For each additional person, add | \$15,840 |

Exchanges/Subsidies-Individual

Up to 400% FPL



- www.StateHealthFacts.org

Play or Pay 2014

Play or Pay

- Employers with 50+ full-time employees or full-time employee equivalents must provide health coverage, or pay one of two penalties.

ACA calls for two possible penalties:

1. Not offering “**minimum essential**” coverage
2. Offering coverage that is considered **inadequate** because it is not “affordable” and/or it does not provide “minimum value.”



Inadequate Coverage

The “inadequate coverage” penalty applies if the large employer offers medical coverage, but it is not “affordable” and/or it does not provide “minimum value.”

- Coverage is “**minimum value**” if the coverage is expected to pay at least 60 percent of claims costs.
- Coverage would be considered “affordable” if the premium contribution for single coverage does not exceed 9.5% of an employee’s W-2 wages.



No Offer Penalty

Penalty for not Offering “Minimum Essential Coverage”

- \$2,000 per FTE (minus first 30). Fee will increase in future years.
- Employees will likely ask for increases in pay to offset additional cost of insurance.

Inadequate Coverage Penalty

The penalty is \$250 per month (**\$3,000 per year**) for each full-time employee who:

- Is not offered coverage that is **both** minimum value and affordable coverage, **and**
- Purchases coverage through an exchange, **and**
- Is eligible for a premium credit (so his household income must be below 400 percent of federal poverty level)

Handling Seasonal and Variable Employees

HIGH PAYING
SEASONAL JOBS



“Seasonal employee” is not defined in the new notice and at least for 2014, an **employer’s good faith determination** that an employee is seasonal will be honored. Usually, seasonal employment means employment for a **limited period to perform a specific function, such as retail during holiday seasons.**

“Variable hours employees” are those whose **hours are variable** or are otherwise uncertain and who **are not reasonably expected to average 30 or more hours per week** over the measurement period. This would include both those expected to work full-time when initially hired but who are expected to have their hours reduced at some point.

Common Law Employee Considered an Employee

- **Common-Law Employee** – no set definition but the parameters include:
 - ✓ Hirer has control over how an individual performs a task and where the tasks are performed
 - ✓ Length of relationship is indefinite
 - ✓ Hirer provides material needed to complete the task
 - ✓ Ability to assign additional tasks
 - ✓ Sets work hours
 - ✓ Payment is made on set schedule of time
 - ✓ Work is part of regular business
 - ✓ Benefits and perks are provided and person is invited to company events
 - ✓ Training is provided
 - ✓ Expenses are reimbursed

Health Care Reform Analysis Model

REPORTING: SUBSIDY-ELIGIBLE RANGE

- This report provides an analysis of how many employees are in the subsidy-eligible range, based on employee salary and monthly premium contribution.

Based on Employee Salary

| Salary Band | Estimated Family Size | | | | | Max Monthly EE Contribution |
|----------------------|-----------------------|----|----|---|----|--------------------------------|
| | 1 | 2 | 3 | 4 | 5+ | |
| \$0 - \$15,415 | 6 | 0 | 1 | 0 | 0 | |
| \$15,415 - \$20,879 | 190 | 2 | 0 | 0 | 0 | \$122 - \$165 |
| \$20,879 - \$26,344 | 654 | 10 | 4 | 1 | 0 | \$165 - \$209 |
| \$26,344 - \$31,809 | 445 | 23 | 6 | 1 | 0 | \$209 - \$252 |
| \$31,809 - \$37,274 | 278 | 17 | 6 | 1 | 2 | \$252 - \$295 |
| \$37,274 - \$44,680 | 174 | 17 | 5 | 1 | 0 | \$295 - \$354 |
| \$44,680 - \$60,520 | 342 | 30 | 15 | 7 | 4 | \$354 - \$479 |
| \$60,520 - \$76,360 | 117 | 16 | 7 | 3 | 1 | \$479 - \$605 |
| \$76,360 - \$92,200 | 22 | 2 | 1 | 1 | 1 | \$605 - \$730 |
| \$92,200 - \$108,040 | 24 | 0 | 0 | 0 | 0 | \$730 - \$855 |
| \$108,040 + | 12 | 9 | 3 | 2 | 1 | |

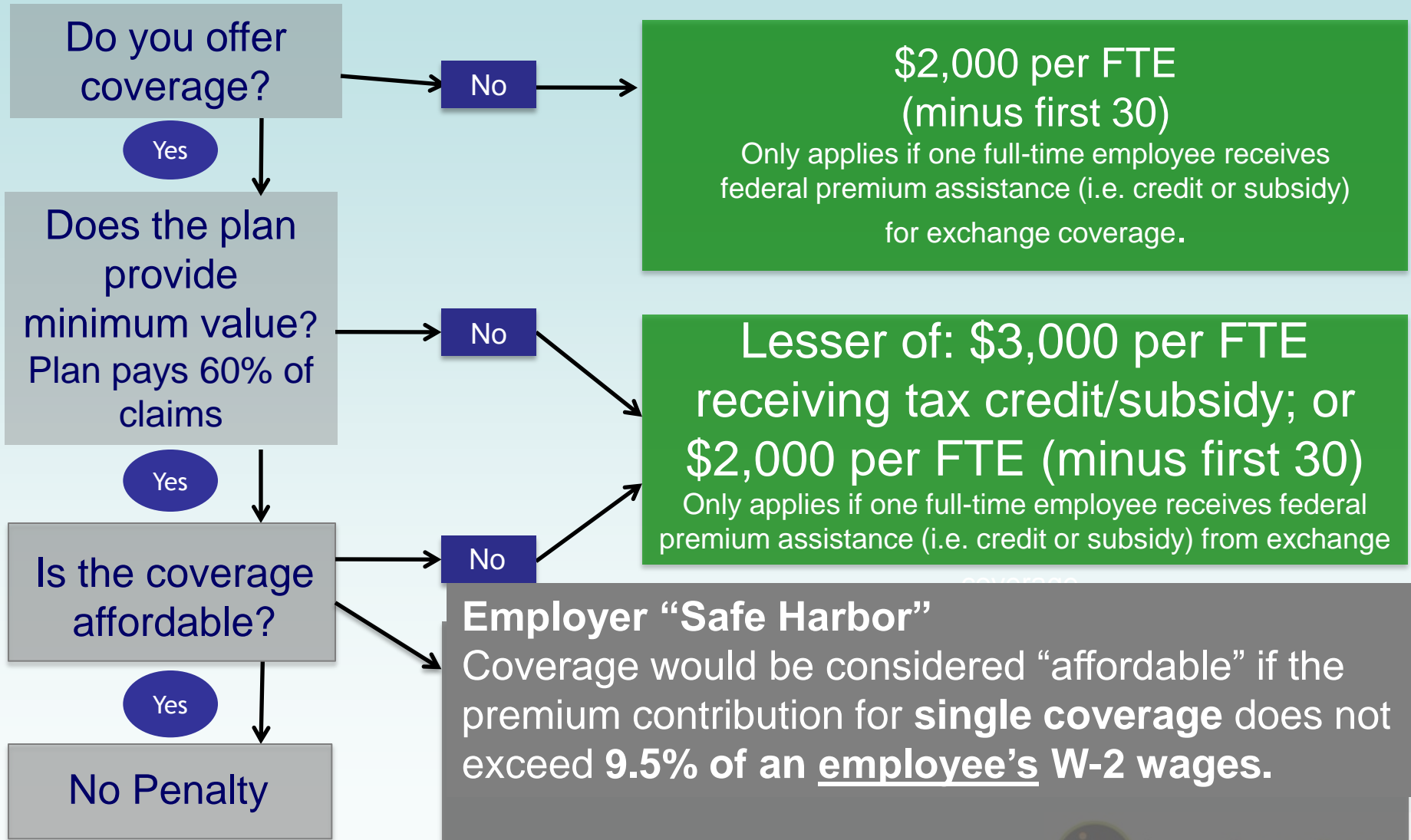
Color Key

Medicaid Eligible

Exchange Subsidy
Eligible

Non-Subsidy
Eligible

50+ EE Employer Penalty Summary



Play

Continuum of Possibilities

Pay

Play

Play by meeting ACA requirements

Optimally manage design and delivery to sustain an employer-sponsored plan

Implement wellness take advantage of 30% differential with contribution

Play & Redirect

Play by meeting ACA requirements

Structure contributions to encourage low-wage earner qualification for subsidies

Pay \$3,000 penalty for those who exit and are subsidized by the Exchanges

Selective Play

Offer employer-sponsored plan to only portion of population

Direct ineligible employees to Exchanges

Pay \$2,000 penalty for all FTEs

Where needed, gross up HCE if plan is deemed to be discriminatory

Pay & Redeploy

Discontinue employer-sponsored plan

Pay \$2,000 penalty for all FTEs

Direct employees to Exchanges

Provide monetized value (e.g., Defined Contribution) in whole or part

Pay & Exit

Discontinue employer-sponsored plan

Pay \$2,000 penalty for all FTEs

Direct employees to Exchanges

Provide no financial subsidy

WARNING:
Address decrease in pay with employees and penalties increase year to year.



In Summary

Strategies and Tactics for 2014 beyond

It's Immediate:

- ACA is a business risk requiring proactive assessment and planning.
- 2014 changes must be addressed.
- New fees and taxes will affect 2014 ongoing budgets.

It's A Total Compensation Issue:

- There's an acute need to understand the financial, total rewards, workforce and administrative issues facing the organization.
- Opportunities exist to optimize ACA impact and Total Rewards strategy.
- Need to plan for best strategy and adjust ongoing.

Thank you

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