HEALTH CARE REFORM AND THE IMPLICATIONS FOR EMPLOYER-SPONSORS

APRIL 26, 2013
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POST-ELECTION IMPLICATIONS
Post-Election Implications

PPACA Is Here To Stay

- Not much is changing in Washington as a result of the election
- The future of health care reform seems secure – employers must prepare for 2014 and beyond
- Many details remain unresolved – a flurry of regulations and guidance is expected from Government in coming weeks and months

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<td>U.S. House Seats</td>
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*2 Independents caucusing with Democrats
Post-Election Implications
Still Potential for Adjustments

• Federal debt limit crisis
  – Will be difficult to exclude costly exchange subsidies and Medicaid expansion from legislative spending cut negotiations

• Many states have far to go in creating exchanges in time to begin enrollment in October 2013
  – Additional guidance is needed before implementation plans can be fully executed

• PPACA’s language provides for subsidies in state-based exchanges
  – Debate continues whether subsidies can be offered in Federal exchange

• Supreme Court decision making state Medicaid expansion voluntary creates coverage gap in states that do not expand to 100% FPL (federal poverty level)
  – Exchange subsidies only available to those between 100% and 400% of FPL

With the threat of repeal gone, the President and Congressional Democrats may be willing to discuss changes that will improve the law or delay some provisions to ensure successful implementation. Employers should continue to plan for future requirements even though timelines and procedures may be uncertain.
Post-Election Implications
Move forward with planning for implementation of all provisions.....

In Place Requirements
- 100% preventive care coverage
- Appeals process
- Select provider direct access
- Out of Network emergency room coverage

2012-2013
Continue to implement:
- Summaries of Benefits and Coverage
- W-2 reporting
- $2,500 HC FSA limit
- Coverage of additional women’s preventive care
- PCORI fee
- Medicare tax increase for high earners
- Medicare retiree Rx subsidy elimination
- Medical loss ratio rebate distribution (insured plans)
- Exchange notifications to employees (deferred to Fall)

2014 and Beyond
Develop strategies for:
- Individual & employer mandates
- Health insurance marketplace and Medicaid expansion
- 90-day waiting period limit
- New health plan fees
- Required notices & reporting
- No coverage limits on essential benefits and pre-ex
- Wellness incentives 30%-50%
- OOP limits capped @ HSA limits (Non-GF)
- Coverage of clinical trials
- Cadillac tax (2018)
- Auto-enrollment (date?)
MEDICAID EXPANSION AND INSURANCE EXCHANGES
Medicaid Expansion

Summary

• PPACA originally expanded Medicaid coverage to almost any individual under age 65 that had an income up to 133%* of the Federal Poverty Level
  – This expansion was designed to significantly reduce the number of uninsured Americans
  – The federal government will pay a very high share of Medicaid cost to states who expand their eligibility to 133%

• The SCOTUS decision on PPACA determined that states are not required to expand Medicaid coverage
  – Prior to this decision a state could decline to expand eligibility, but would have lost all federal Medicaid funding
  – This provision was deemed unconstitutional, since it would have threatened existing funding as well

• The following slide has a map outlining the state by state status of Medicaid expansion

<table>
<thead>
<tr>
<th>Family Size</th>
<th>133% of 2013 FPL</th>
<th>138% of 2013 FPL</th>
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<tr>
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<td>8</td>
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</table>

*Medicaid expansion is up to 133% of FPL; however, the first 5% of income is disregarded when assessing eligibility, which effectively makes the eligibility threshold 138% of FPL.
State Insurance Exchanges

Summary

• Exchanges are to be set up by each state to provide a platform for individuals to purchase health coverage

• If a state does not set up an exchange by 2014 a federal exchange will be set up in place of the state exchange

• Large employers (100+) may have access to purchase coverage through state exchanges starting in 2017, at the state’s discretion

• The following slide has a map outlining the state by state status of exchange setup
State Exchange Decision
Status as of March 13, 2013

INDIVIDUAL AND EMPLOYER MANDATES
Individual Mandate
Summary

- Individuals must have qualifying minimum coverage or pay tax penalty. Potential annual penalties are:
  - 2014: greater of $95 per individual or 1% of household income*
  - 2015: greater of $325 per individual or 2% of household income*
  - 2016: greater of $695 per individual or 2.5% of household income*

- Individuals with no employer coverage or with “insufficient” or “unaffordable” employer coverage are eligible for Exchange coverage and may receive a federal tax credit subsidy (sliding scale based on income).

*Penalty cannot exceed the national average cost for Bronze plans in the exchange

The new decisions employees make will directly impact the employer’s cost starting in 2014.

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Employer Mandate

Summary

Applicable to employers with 50 or more full-time equivalent employees:*

- **“Pay”** – If no employer plan is offered and 1 or more FT employee receives the exchange coverage tax credit subsidy, employer pays penalty of $2,000/FT employee (first 30 FT employees excluded from penalty)

- **“Play”** – If employer plan is offered but is offered to less than 95% of FT employees or is not offered to employees’ children, rules outlined above apply. If coverage is offered to 95%+ of FT employees and children but is “insufficient” or “unaffordable” and 1 or more FT employee receives the exchange coverage tax credit subsidy, employer pays penalty of $3,000/FT employee receiving subsidy (or $2,000 per FT employee, if less)

**Pay or Play Decision Tree**

- **Is coverage offered to 95%+ of FT employees and their children?**
  - Yes
    - **Employer pays $2,000 for every FT employee (minus 1st 30) if at least 1 FT employee receives a tax credit subsidy**
  - No

- **Are plan benefits sufficient?**
  - Yes
    - No penalty
  - No
    - **Employer pays $3,000 per FT employee who receives a tax credit subsidy (or $2,000 for every FT employee, if less)**

**“Insufficient” Benefits** – plan’s actuarial value is <60% (benefits pay less than 60% of cost of services)

**“Unaffordable” Benefits** – household income <400% federal poverty level ($46K single, $94K family) and single-tier contribution is >9.5% of employee’s W-2 income

**Full-Time Employee** – employee working avg. 30+ hrs/wk
HIGH-VALUE PLAN TAX
High Value ("Cadillac") Plan Excise Tax

Summary

• Includes medical/Rx, individual reimbursement accounts, EAP, and onsite medical clinics

• 2018 thresholds are $10,200 for single coverage and $27,500 for family coverage – will be indexed annually thereafter based on CPI

• 40% excise tax on the coverage value that exceeds these thresholds

• Threshold adjustments permitted for pre-65 retirees, high-risk professions, and significant age/gender factors

Most Likely Employer Actions Regarding Excise Tax

- Will do whatever is necessary to bring plan cost below threshold amounts
- Will attempt to bring cost below threshold amounts, but may not be possible
- Will take no special steps to reduce cost below threshold amounts
- Believe plan(s) are unlikely to ever trigger excise tax

Source: Mercer Survey of Employer-Sponsored Health Plans 2011
"Pay or Play" Analysis
Potential Employer Penalty Exposure

Employee Eligibility

- 1,691 employees currently enrolled in major medical
- 125 employees who would become eligible in 2014 under PPACA
- 10 employees currently waiving major medical

Employee Income (Affordability)

- 0 additional employees are enrolled and paying unaffordable contributions making them ineligible for a tax credit
- 1,826 employees potentially eligible for premium assistance

*1,826 full-time (30 or more hours/week) employees

⇒ Contributions in 2014 will determine the true potential impact.
“Pay or Play” Analysis
Potential Employer Cost Scenarios Graph

- Pre-PPACA: $9,988,179
- Maintain Current Plan Strategy: $10,123,885
- Compliant Eligibility Strategy: $10,165,227
- Compliant Strategy w/ Penalty Reduction: $10,165,227
- Drop Coverage and Adjust Salaries: $4,999,290
- Drop Coverage without Adjusting Salaries: $4,988,889

Plan Cost, Penalties, Compensation Adjustment
### “Pay or Play” Analysis

Potential Employer Cost Scenarios Detail

<table>
<thead>
<tr>
<th>Employer Expenses</th>
<th>Pre-PPACA</th>
<th>Maintain Current Plan Strategy</th>
<th>Compliant Eligibility Strategy</th>
<th>Compliant Strategy w/ Penalty Reduction</th>
<th>Drop Coverage and Adjust Salaries</th>
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<tr>
<td>Enrolled / Eligible Employees</td>
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<td>Total Tax-Deductible &amp; Non-Tax-Deductible Employer Expenses</td>
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<td>$10,153,885</td>
<td>$10,165,227</td>
<td>$10,165,227</td>
<td>$8,242,503</td>
<td>$3,592,000</td>
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<td>Gross Revenue Required to Fund Expenses</td>
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<td>$10,123,885</td>
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<td>$4,988,889</td>
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<td>Total Gross Revenue Required to Fund Tax-Deductible and Non-Tax-Deductible Expenses</td>
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Per Capita Health Care & Salary Increase Costs

<table>
<thead>
<tr>
<th></th>
<th>Pre-PPACA</th>
<th>Maintain Current Plan Strategy</th>
<th>Compliant Eligibility Strategy</th>
<th>Compliant Strategy w/ Penalty Reduction</th>
<th>Drop Coverage and Adjust Salaries</th>
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<td>PEPY Employer Plan Cost (Enrolled)</td>
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*Current employer plan year cost is approximately $9,205,695

⇒ The numbers used are estimates based on the current guidance of PPACA. As 2014 approaches and more guidance is issued the numbers could fluctuate materially.
“Pay or Play” Analysis
Facts and Assumptions

Facts
• 1,826 employees are either eligible or are working 30 or more hours per week
  – 1,691 employees are participating in the plan (89% take-up rate)
• Monthly employee cost for base plan single coverage: $101.81
• 1,535 full-time employees earning below 400% of Federal poverty level
• 0 full-time employees earning below current Medicaid level

Assumptions
  – 8.5% annual health care trend
  – 3% annual employee pay increases
  – 1/1/2013 base year plan designs, enrollments, and costs
Pay Strategy Scenarios

• Drop Coverage and Adjust Salaries: Terminate benefit plan and cease offering access to health insurance
  – Pay $4,988,889 in penalties for not offering coverage to all employees averaging 30 or more hours/week
  – Provide a stipend (pay increase) to employees to purchase coverage through an Exchange
  – $0 annual net cost change from pre-PPACA

• Drop Coverage Without Adjusting Salaries: Terminate benefit plan and cease offering access to health insurance
  – Pay $4,988,889 in penalties for not offering coverage to all employees averaging 30 or more hours/week
  – Do not provide a stipend (pay increase) to employees to assist with the purchase of coverage through an exchange
  – ($4,999,290) annual net cost change from pre-PPACA
“PAY OR PLAY” STRATEGIES
“Pay or Play” Strategies
It’s a Business Decision

You first should decide how important offering competitive healthcare benefits is to your business—and if it is important, then decide how to effectively manage annual employer costs.

OR

Determine health benefits matter
“Play”
Engage employees to manage health
Aggressively manage plan on a long term basis

Determine health benefits not key to retention/recruitment
“Pay”
$2,000 penalty on all FT employees (minus 1st 30)
Pay adjustment to keep employees whole
“Pay or Play” Strategies

Potential Solutions

- Large ERs 2017 State Exchange Options
- Defined Contribution/Private Exchanges
- CDHP/Health Management/Plan Design/Contribution Strategy

“PLAY”

“PAY”
“Pay or Play” Strategies
Alternatives to Consider for 2014

• Continue results driven population health management program

• Increase dependent tier contributions to offset cost increases of new opt-ins due to individual mandate

• Decrease number of staff working 30+ hours per week (reduce hours of those currently working just over 30 hrs/week)
“Pay or Play” Strategies
Decision to Keep Coverage

• Will employers keep coverage after 2014?
  – Recent surveys have shown that only 10-15% of employers plan to drop coverage

• Why employers choose to keep coverage?
  – If employers wish to maintain the same level of employee compensation they will need to increase employee salaries to account for the cost of coverage elsewhere
  – Remain competitive in the marketplace for recruiting talent and reducing turnover
  – Allows employer to have control over the employee population’s overall health and productivity

What Employers Are Considering
Employer’s Likely Actions Regarding Employees
Working 30+ Hours/Week

- Make all employees working 30+ hours/week eligible for full-time employee plan(s) - 45%
- Change workforce strategy so that fewer employees work 30+ hours/week - 32%
- Add a lower-cost plan for employees that work fewer than 40 hours/week - 18%
- Make no change and pay penalty as necessary - 6%

Source: Mercer Survey of Employer-Sponsored Health Plans 2011
“CADILLAC” TAX ANALYSIS
“Cadillac” Tax Analysis
Plan Cost Timeline Exhibit

PPO

$35,000

$30,000

$25,000

$20,000

$15,000

$10,000

$5,000

$0


Family Threshold
Family 4.5%
Family 6.5%
Family 8.5%
Individual Threshold
Individual 4.5%
Individual 6.5%
Individual 8.5%
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