

NCSL Fall Forum – 2012

HOW HEALTH REFORM AFFECTS STATES AS EMPLOYERS

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The Playing Field Has Changed!

Why it's different now and for the future

1. Health Care Reform places new and increasingly more stringent requirements onto public sector health plans
2. The Federal Government is now a player in every state and local jurisdiction health plan.
3. Medicaid will now impact more employees and dependents
4. State and local government's traditional role in providing "hire to grave" health benefits for active and retired employees is changing
5. When the Health Insurance Exchanges are implemented, public plans have a new (*possibly* more cost effective) vendor/competitor.
6. At the state level, how do you justify competing against the Health Insurance Exchange that your own jurisdiction runs?

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Mandates Already in Effect or Coming Soon

Plan years on or after 9/23/2010

- ✓ Age 26 coverage extension
- ✓ No lifetime dollar limits
- ✓ Restricted annual dollar limits
- ✓ No preexisting condition exclusions for children
- ✓ No rescissions unless fraud
- Uniform information disclosure (March 23, 2012)
- Medical Loss Ratios for insured plans

Plan years on or after 1/1/2014

- No waiting period over 90 days
- No preexisting condition exclusions
- No annual dollar limits



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New ACA Requirements for 2012-2013

All Plans (grandfathered and non-grandfathered):

- Summary of Benefits and Coverage – first enrollment period after September 23, 2012
- Comparative Effectiveness Research Fees
- Plans to Certify Compliance with Certain HIPAA Electronic Data Interchange (EDI) Standards (compliance not required until certification process is developed by government)

Applicable to Employers:

- W-2 Reporting – effective for 2012 tax year
- Employer Exchange-related Notices – March 2013



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Even More Coming After That . . .

- More administrative requirements
- Employer Free-Rider Penalty
- Health Insurance Exchanges
- Medicaid expansion / exchange subsidies
- Individual Subsidies/Penalty for failure to obtain insurance
- Excise Tax - 2018

Pattern: Increasing benefit requirements – and increasing administrative complexity



The Exchanges & The Uninsured

The Affordable Care Act (ACA) seeks to lower the number of uninsured people by:

1. Imposing an individual mandate
2. Eliminating pre-existing condition exclusions
3. Expanding Medicaid to all people under age 65 with incomes up to 133% of the Federal Poverty Level (FPL)
4. Creating new virtual marketplaces to buy coverage (the Exchanges)
5. Providing subsidies for lower-income individuals to buy Exchange coverage
6. Giving large employers incentives to provide coverage to full-time employees

How ACA Addresses the Uninsured

- Imposes individual mandate: have health coverage or pay a tax penalty
 - Formula is *the greater of* a flat amount or a % of income
 - 2014: \$95 per adult or 1% of income
 - 2015: \$325 per adult or 2% of income
 - 2016: \$695 per adult (indexed for 2017, etc.) or 2.5% of income
 - Employer coverage will satisfy the mandate
- Expands Medicaid eligibility
 - To individuals under 65 with income under 133% of Federal Poverty Level (FPL)
 - Increases federal funding to the states to provide the additional Medicaid coverage, but states also must pay a portion of the costs
 - Federal government has right to withhold all Medicaid funding (even pre-ACA) if state does not accept the terms of the Medicaid expansion ← *Overturned by Supreme Court in 6/28/12 decision*

Employer Free-Rider Penalty

- Applies to employers with **50 or more full-time employees**
 - Must aggregate hours of part-time employees to create total number of full-time employees
 - Subtract first 30 workers when paying assessment
 - FTE = 30 hours
- If the employer **does not** offer coverage (and one full-time employee receives a tax credit in the Exchange)
 - Penalty is **\$2,000** (annualized) times the **total #** of full-time employees (minus first 30)
- If the employer **does** offer coverage but coverage is not **affordable** (over 9.5% of household income) or is not of **minimum value** (actuarial value is less than 60%)
 - Penalty is **\$3,000** (annualized) times **# of full-time employees getting tax credit** in Exchange

What is an Exchange?

- A marketplace to buy insurance
- Two Exchanges
 - Individual
 - Small Business Health Options Program (SHOP)
- Massachusetts Connector:
 - <https://www.mahealthconnector.org/portal/site/connector>



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Example of Exchange (pre-ACA)

HealthConnector
Health Insurance for Massachusetts Residents

Account Login | E-Pay | En Español | Help | Contact Us

Home Find Insurance Health Care Reform About Us

Overview Find a Plan FAQ

BROWSE PLANS: 6 benefits packages (What's a benefits package?) ? [47 plans]

Sort plans by: Benefits package

Show Plans. Then choose up to 3 to compare. Click Continue at bottom.

	Monthly Cost	Annual Deductible	Annual Out of Pocket Max.	Doctor Visit	Generic Rx	Emergency Room	Hospital Stay
Bronze Low Benefits Package 8 plans available as low as \$1,193		\$2,000 (ind.) \$4,000 (fam.)	\$5,000 (ind.) \$10,000 (fam.)	annual deductible, then \$25 copay	annual deductible, then \$15 copay	annual deductible, then \$100 copay	annual deductible, then 20% co-insurance
<ul style="list-style-type: none"> CELTI CARE \$1,192.62 Neighborhood HealthPlan \$1,310.86 Harvard Pilgrim HealthCare \$1,313.04 HealthWay Plan \$1,333.66 Commonwealth community \$1,336.00 TUFTS HealthPlan \$1,337.29 Commonwealth community \$1,520.00 Commonwealth community \$1,520.30 							
Bronze Medium Benefits Package 8 plans available as low as \$1,315		\$2,000 (ind.) \$4,000 (fam.)	\$5,000 (ind.) \$10,000 (fam.)	\$30 copay	\$10 copay	annual deductible, then \$150 copay	annual deductible, then \$500 copay

STANDARD BENEFITS FOR ALL BRONZE LOW PLANS

STANDARD BENEFITS FOR ALL BRONZE MEDIUM PLANS

STANDARD BENEFITS FOR ALL BRONZE HIGH PLANS

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Health Insurance Exchange Functions

- Provides a regulated Internet marketplace
- Individuals can purchase coverage from insurance companies which meets certain federal and state standards
- Small businesses can purchase coverage for their employees
- Exchanges will make eligibility assessments/determinations for Medicaid, CHIP, etc.
- Exchanges will also determine whether individuals are eligible for the federal subsidies (“premium assistance tax credit”)
- Exchanges will provide consumer assistance
- Navigators will receive grants from Exchanges to help individuals enroll



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Qualified Health Plans on the Exchange

Must...

- Offer “essential health benefits”
- Offer at least one silver plan and one gold plan, and certain child-only plan
- Cover all applicants regardless of health status
- Not charge people with health problems more than people who are well
- Follow underwriting rules that allow rates to vary only by:
 - Individual v. family
 - Rating area
 - Age no more than 3 to 1
 - Tobacco use, no more than 1.5 to 1



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Exchange Benefit Levels

Platinum: 90% of the full actuarial value

Gold: 80% of the full actuarial value

Silver: 70% of the full actuarial value (keyed to subsidies)

Bronze: 60% of the full actuarial value

Young Invincible (catastrophic plan for individuals under 30)

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Individual vs. Small Business Exchanges

Two separate Exchanges but states can merge into one.

Individual Exchange

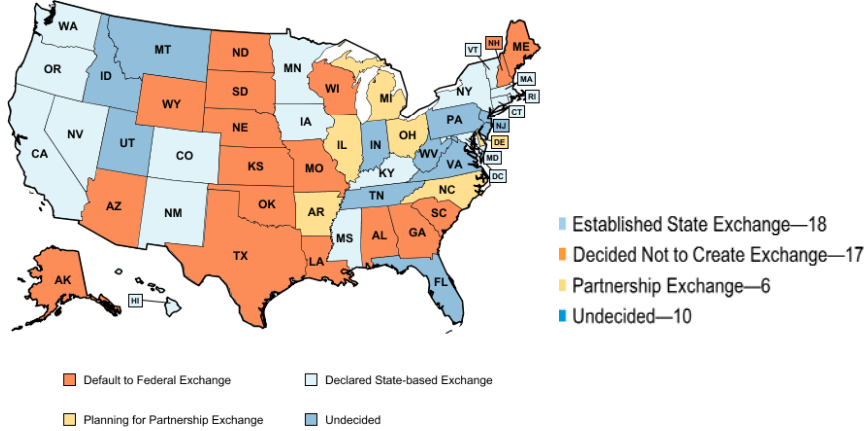
- Open to individuals who are citizens or legal immigrants
- Not open to undocumented individuals
- Buy through home state exchange
- **Federal subsidies are available to help individuals/families buy coverage**
- People who are eligible for decent, affordable coverage – for example, through a group health plan – do not qualify for these subsidies

Small Business (SHOP) Exchange

- Initially, open only to small employers
- States may allow large employers to buy beginning in 2017
- Employer buys through:
 - Exchange where employer has principal place of business, or
 - Exchanges in the states where employees have their principal worksite
- **No federal subsidies to help employees buy coverage**

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Exchange Options As of November 28, 2012



State Decisions For Creating Health Insurance Exchanges in 2014, as of November 28, 2012: Exchange Decision


statehealthfacts.org
 Your source for state health data

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Premium Assistance Tax Credit

The premium assistance tax credit is based on:

- The premium cost of the second-lowest-cost silver plan offered through an Exchange, and
- The household income level of the applicant

Household Income Level (% above FPL)	Maximum Premium as Percentage of Income
Less than 133%	2.0%
At least 133% but less than 150%	3.0% – 4.0%
At least 150% but less than 200%	4.0% – 6.3%
At least 200% but less than 250%	6.3% – 8.05%
At least 250% but less than 300%	8.05% – 9.5%
At least 300% but less than 400%	9.5%

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Poverty Guidelines

2014 ESTIMATED* POVERTY GUIDELINES FOR THE 48 CONTIGUOUS STATES AND THE DISTRICT OF COLUMBIA

Persons in Family	100% FPL	133% FPL	250% FPL	400% FPL
1	\$11,735	\$15,608	\$29,338	\$46,940
2	\$15,896	\$21,142	\$39,740	\$63,584
3	\$20,056	\$26,674	\$50,140	\$80,224
4	\$24,217	\$32,209	\$60,543	\$96,868
5	\$28,377	\$37,741	\$70,943	\$113,508
6	\$32,538	\$43,276	\$81,345	\$130,152
7	\$36,698	\$48,808	\$91,745	\$146,792
8	\$40,859	\$54,342	\$102,148	\$163,436

* 2014 estimate based on 2012 levels increased by 2.5% per year.

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Purchasing Subsidized Exchange Coverage

Example:

- Family of four purchasing coverage in an Individual Exchange:
 - Modified Adjusted Gross Income—\$60,543
 - Federal Poverty Level—250%
 - Family Share of Premium—8.05%
 - Annual Cost of Second Lowest Silver Plan—\$12,000
 - Annual Premium **Max**—\$4,874
 - Family Monthly Premium **Max**—\$406
 - Premium Assistance Tax Credit—\$7,126



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Illustrative Exchange Premiums

Plan Tier	If Total Monthly Premium =	Monthly Subsidy	Monthly Family Premium
Platinum	\$1,600	\$ 594	\$1,006
Gold	\$1,400	\$ 594	\$ 806
Silver (high)	\$1,200	\$ 594	\$ 606
Silver (med)	\$1,000	\$ 594	\$ 406
Silver (low)	\$ 900	\$ 594	\$ 306
Bronze	\$ 800	\$ 594	\$ 206

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Purchasing Subsidized Exchange Coverage

Example:

- Single worker purchasing coverage in an Individual Exchange:
 - Modified Adjusted Gross Income—\$60,543
 - Federal Poverty Level—over 400%
 - His Share of Premium—100%
 - *Premium Assistance Tax Credit—\$0*

He pays the full cost of the coverage and will pay more for gold or platinum than for silver.



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Challenges of Exchange Purchasing

- Participants will lose the benefits protection and coverage advocacy that often comes from a group sponsored plan
- Matching existing plan coverage may be virtually impossible
- Exchange plans could be more expensive for comparable coverage to pay for insurance company overhead and profits
- Participants will have to make decisions about which insurance company to use, level of coverage, plan design, and network coverage
- Political and economic pressures could mean changes to the law (e.g., subsidies being lowered and employer penalties could be increased)

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Challenges of Exchange Purchasing *continued*

- Some participants would pay more and some will pay less for the same coverage depending on household income, family size and age
- Participants will have to use after-tax dollars to pay premiums for Exchange coverage
- If not receiving the subsidy, and the value of medical/Rx coverage becomes part of salary, the medical inflation burden could shift from the employer to the member
- Participants run the risk of having to pay back excess subsidy to the government
- If able to negotiate additional wages for the benefit trade-off, almost impossible to exactly match the additional cost for each participant

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Exchanges Raise Important Questions for Public Sector Benefit Plans

- How will the State employee health plan and Medicaid be integrated with the exchange? Competitors or friends?
- Will it be better to work with the health insurance exchanges or keep going your own way?
- What position will the State and local jurisdictions take to encourage or discourage public employees from enrolling in the exchanges?
- Ultimately, should the jurisdiction continue its health benefit plans or cede them to the exchange?

- *Private exchanges* are also being developed by carriers and third party administrators.
- These may also be a future direction for public employers not able to participate in their State sponsored exchanges.

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Future Directions for Public Sector Employers

- What if you terminate employer sponsored group insurance and use the exchange?
 - Account for “Free Rider” penalty in total cost of benefit
 - Reduction in jurisdictional staff needed for administration
 - Net gain to public employer
- Or, provide employer sponsored coverage through the exchange?
 - Exchanges open to larger employers and groups in 2017
 - No exchange subsidy for employees
 - But, no subsidy if you maintain a separate employer plan
 - No tax advantage either way for public jurisdictions
 - Health benefit plans no longer a differentiator among employers

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And, Don't Forget the Environmental Factors

- The population is aging
- Older = Sicker
- The cost of health care keeps rising faster than inflation
- Public employer budgets are tight and likely to remain so
- Private employers will continue to cut or curtail employer sponsored health benefits



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Life Down the Road

In 10 years or less...

- Majority of employees will be covered by health insurance through an exchange
- New hires will expect to keep their exchange coverage
- Employers will offer the exchange as the plan or as an option
- Employer subsidy will be on a defined contribution basis
- Change in philosophy – employer as facilitator, not as sponsor; health insurance is no longer the employer's responsibility
- To gain a competitive employment edge, private employers will offer supplements to the exchange or special policies to protect the employee from gaps
- Private exchanges will flourish as alternative to state exchanges

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Excise Tax on High Cost Plans

Effective in 2018

- Based on total cost of coverage; employer plus employee premium share

Cost threshold for tax (indexed after 2018)

- \$10,200 Single, \$27,500 Family
- Increased by \$1,650 Single, \$3,450 Family:
 - For retired individuals age 55 or older and not eligible for Medicare
 - If majority of employees covered by the plan are:
 - » Engaged in a high-risk profession (list in statute), or
 - » Employed to repair/install electrical or telecommunications lines
- Excludes dental and vision
- Includes health HRAs, HSAs, and FSAs

Tax is paid by insurer or administrator, not by participant

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What Public Plan Sponsors Should Do Now

Understand Your Environment

- Keep up with what other employers are doing
- Follow changes required to comply with state as well as federal requirements
- Identify how health benefits now fit into the bigger picture

Understand The Cost

- What impact will the new mandates, taxes and penalties have on the short-term and long-term cost of offering health benefits?
- Review available opportunities to manage program cost and maintain benefits
 - Encourage and reward healthy behaviors that hold down benefit costs
 - Negotiate vendor contracts actively to capture savings and assure compliance
 - Actively manage access and utilization for targeted high cost diagnosis groups
 - Explore alternative program designs to encourage appropriate utilization

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What Public Plan Sponsors Should Do Now

Understand Your Options

- Determine impact of ACA mandates, taxes and penalties on short-term and long-term health benefits plan cost
- Explore ALL the possibilities
 - **Maintain your sponsored group plan**
 - How will you control costs going forward?
 - How will you communicate the value of your program compared to the exchanges?
 - **Provide benefits through an exchange**
 - Public exchange or private exchange?
 - One of the plan options or the main show?
 - **Eliminate health benefits and subsidize individual premiums**
 - How does this fit with your broader responsibility as a public jurisdiction?
 - Will you still be able to influence health status and productivity?
- Develop your updated strategy on how to offer benefits in the future.
 - **Shorter term** – can you maintain continuity and perceived value while containing costs?
 - **Longer term** – can you provide more responsive and valued health care benefits than will be offered to individual consumers through the health insurance exchanges?

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Health Reform Resources

On the Segal Website:

www.segalco.com/publications-and-resources/health-care-reform/

- Health Care Reform Timeline
- Health Care Reform Insights
- Stat!
- Bulletins
- Public Sector Letters
- Webinar recordings and slides

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Questions?



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