



Gallagher Benefit Services, Inc.
t h i n k i n g a h e a d



Guiding Public School Employers through the Complexities of Healthcare Reform

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Healthcare Reform – Top Concerns

Top concerns/questions:

1. Do we have to pay penalties on employees that opt out of our benefit plans?
2. How do we know if our plans meet the minimum benefit standards?
3. How do we know if our plans are considered affordable?
4. Do we have to pay penalties on part-time employees that are not currently offered benefits?
5. What happens if our plan costs exceeds the Cadillac Tax level before 2018?

Healthcare Reform Broad Objectives

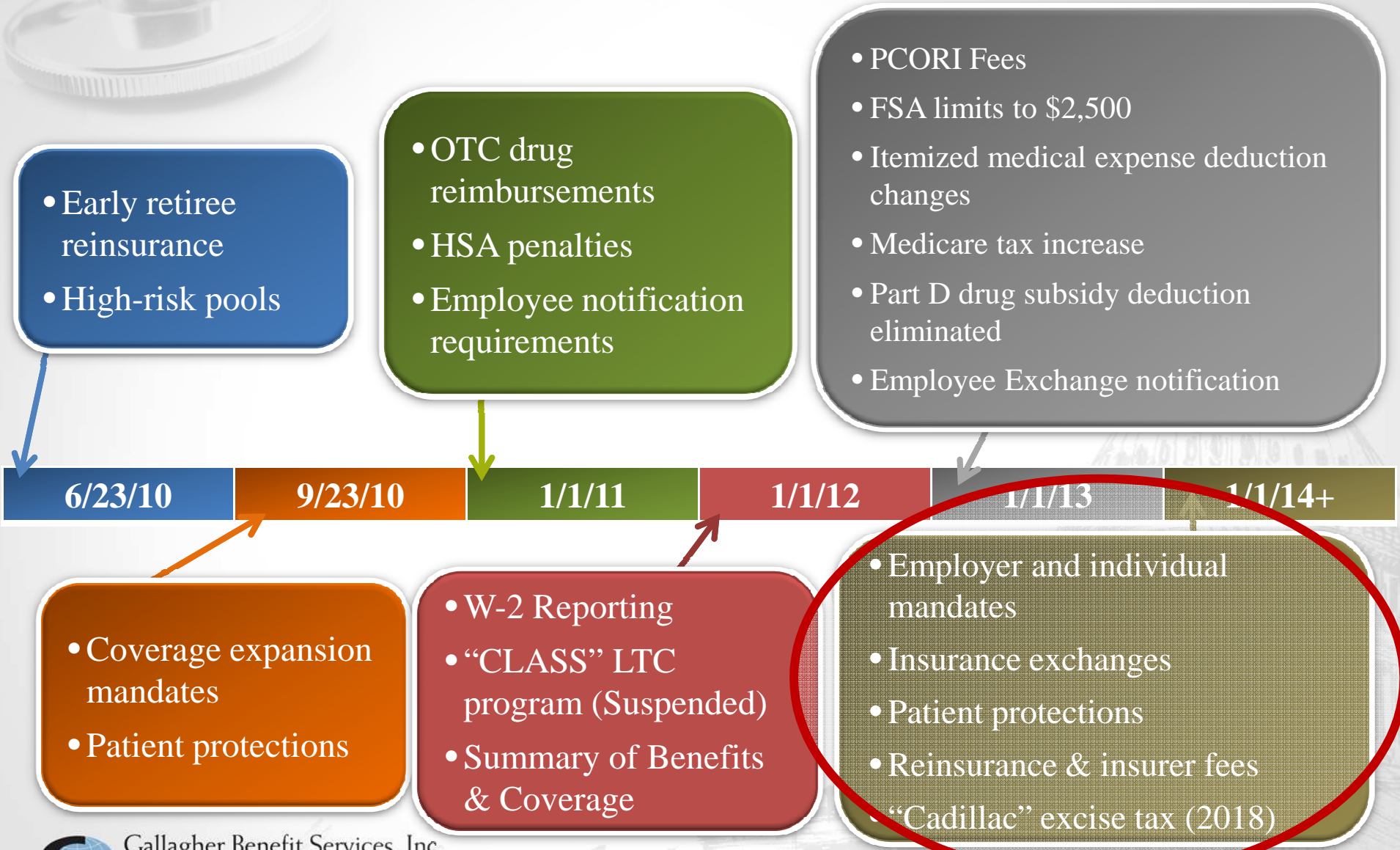
- ❖ Reduce the uninsured population in the US:
 - **Require employers to play or pay regarding medical coverage**
 - **Individual mandate in place to require health coverage**
- ❖ Other Actions:
 - **Remove barriers to coverage (pre-existing conditions)**
 - **Improve preventive care benefits to reduce long-term costs**
 - **Provide exchanges to bolster purchasing opportunities**
 - **Implement taxes and fees to offset initial costs**
 - **Limit future plan costs to keep coverage affordable**
- ❖ Balance changes with overall impact on the economy!

Healthcare Reform - What's Happened So Far



- ❖ Adult children coverage to age 26
- ❖ Remove plan dollar limits
- ❖ No pre-existing condition for dependents under 19
- ❖ Preventive care coverage at 100%
- ❖ FSA annual limits cut to \$2,500
- ❖ Women's health preventive services
- ❖ W-2 Reporting and SBCs distributed
- ❖ Minimum loss ratios & PCORI Fees

2014: Staring Down the Big Changes



Health Care Reform: 2014

- ❖ IRS Reporting of Health Insurance Coverage
- ❖ Automatic Enrollment (delayed past 2014)
- ❖ Nondiscrimination Testing (delayed pending guidance)
- ❖ Additional Patient Protections:
 - No waiting periods longer than 90 days
 - Elimination of Pre-existing Condition Exclusions for all adults



Health Care Reform: 2014

❖ Transitional reinsurance fees

- Program begins in 2014
- HHS estimate of \$63 per covered life per year
- Program runs for three years
- Paid on insured and self-funded plans

❖ Insurer Fees (Health Insurance Tax)

- Annual fixed fee amount paid to be by insured health plans
- Amount paid is determined by “market share”
- 2014 fixed fee is \$8 billion, increasing to \$14.3 billion in 2018, then indexed in future
- Non-profit insurers only pay on 50%, sort of...
- Corporate taxes on for profit insurers will increase the impact of this fee



Health Care Reform: 2014

❖ Employer Mandate – Play or Pay!

- How many 30+ hour employees do you have?
- Do you provide medical coverage?
- Does the coverage meet required values?
- Is the coverage considered affordable?

❖ Individual Mandate – True Impact??

- Tax penalty for no medical coverage
- How will this be collected? Non Tax Filers?

❖ Benefit Exchanges

- State Exchanges – California is developing
- Federal Exchange



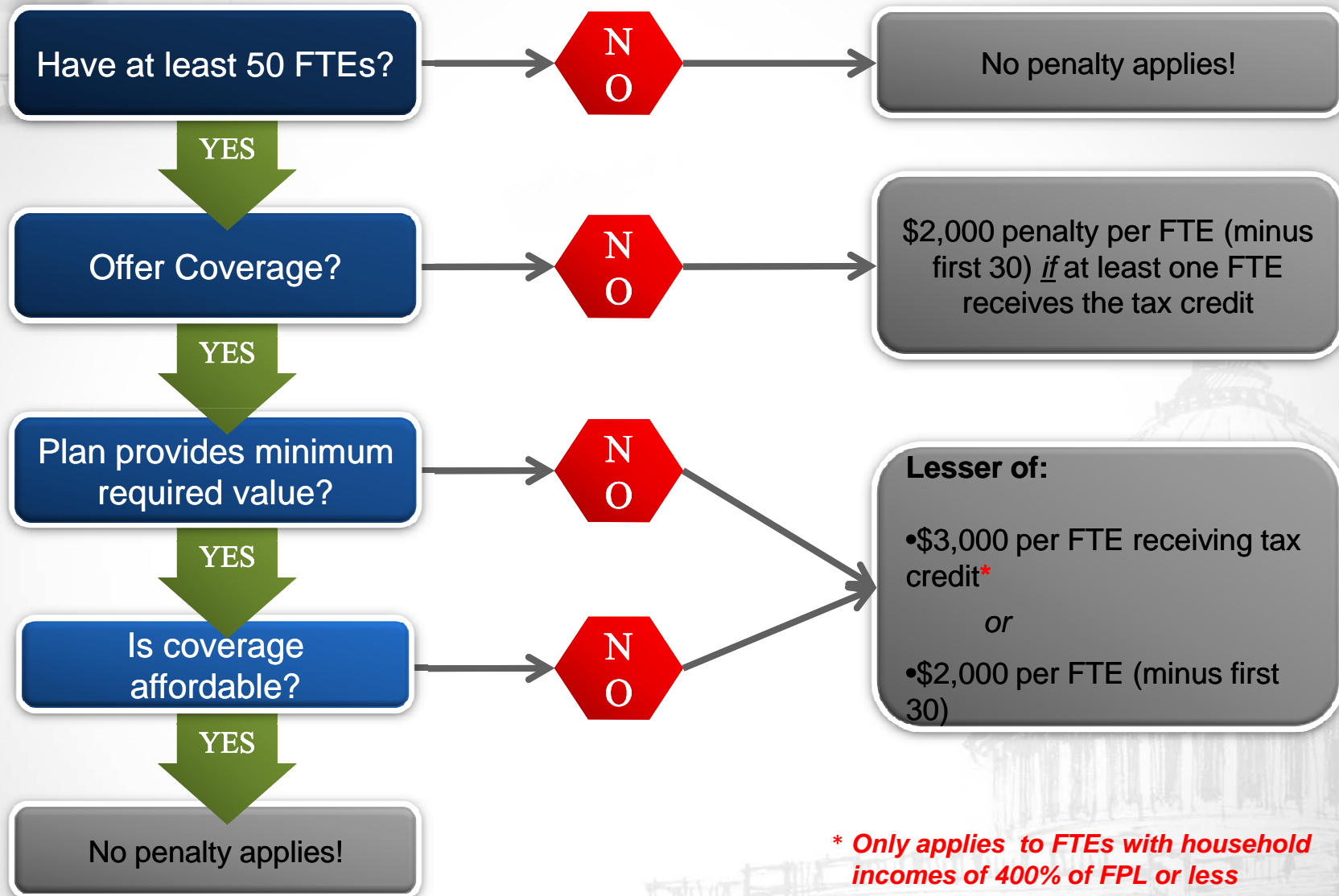
Employer Shared Responsibility

“Full Time Employee” for Penalty Calculation



- ❖ Effective January 1, 2014
- ❖ A FTE is defined as:
 - **Worked an average of at least 30 hours/week**
- ❖ Part-time and seasonal employees working less than an average of 30 hours per week – no penalty
- ❖ Temporary and seasonal employees working at least 30 hours per week – eligibility determined by formula

Employer Shared Responsibility



** Only applies to FTEs with household incomes of 400% of FPL or less*

Adjustments to Qualify as Affordable Coverage

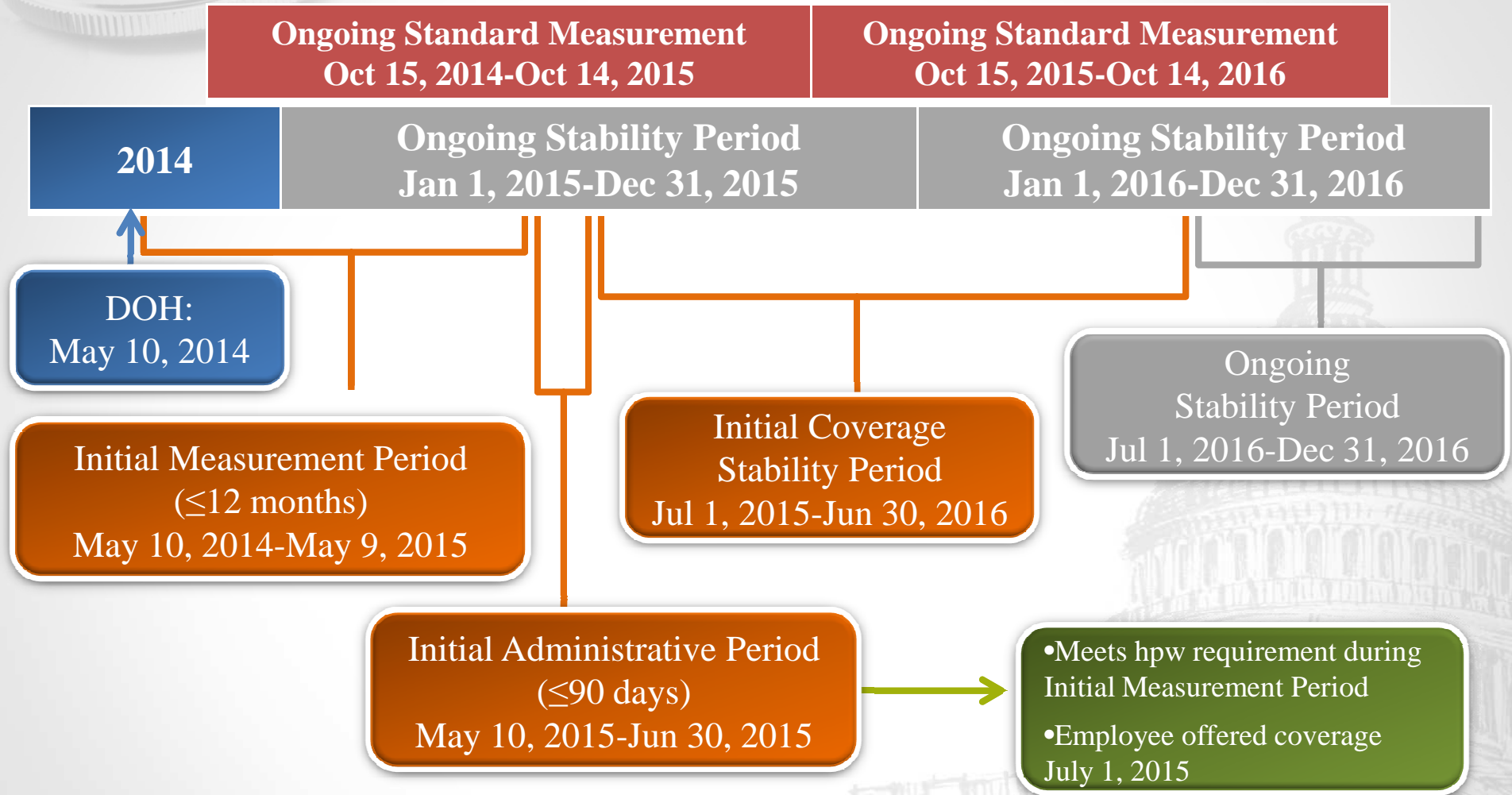
- Create a lower value plan but not less than the 60% minimum value plan thus allowing the plan to cost less. Therefore, the employee contribution will be higher as a percent of premium
- Shift employer dollars spent on dependent coverage to the employer contribution for single coverage
- Design contribution strategy around employee income to allow lower compensated employees “affordable” contributions
- Improve employer contributions for 30 hour employees if their contributions are deemed unaffordable

Employer Shared Responsibility

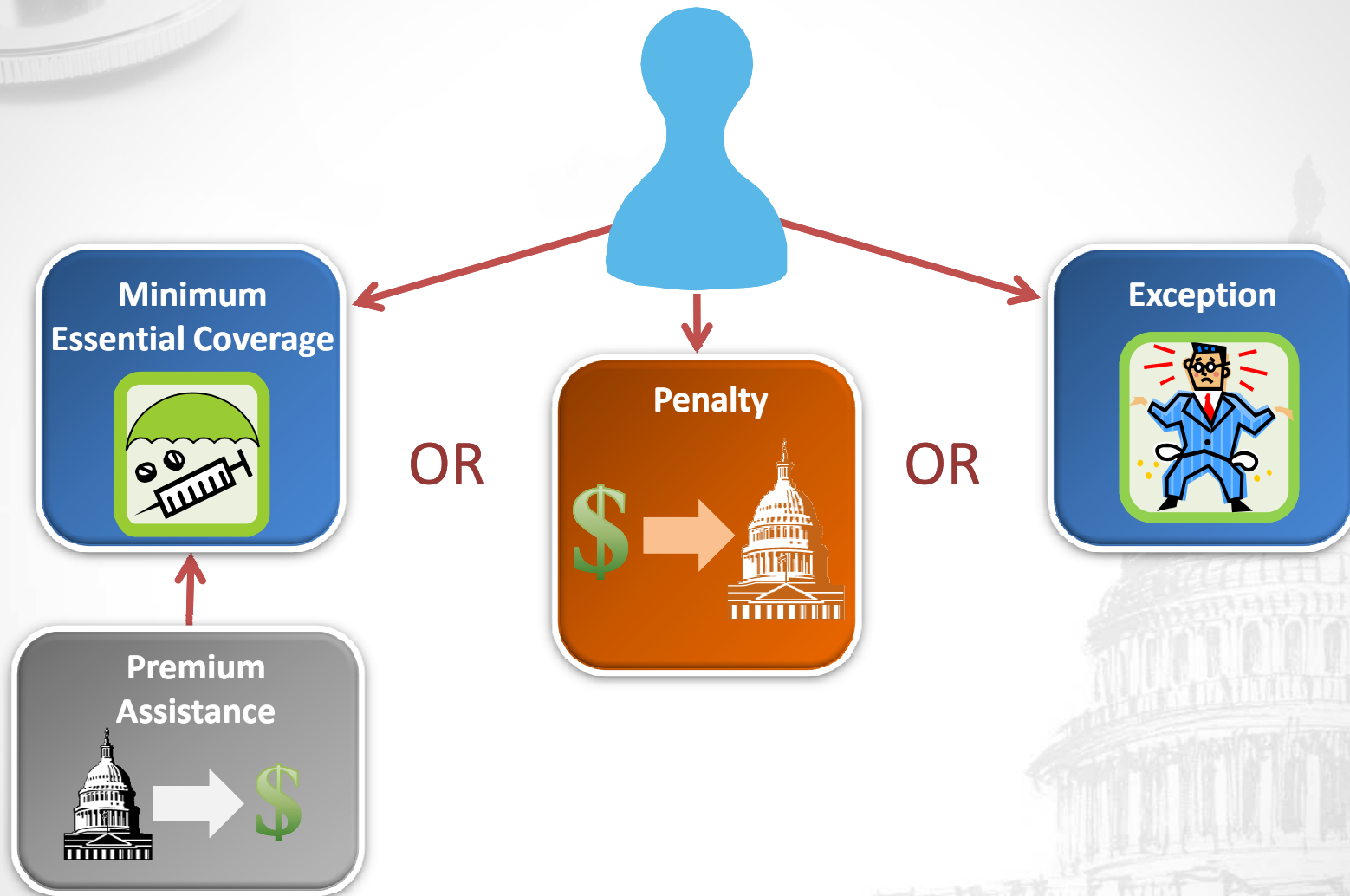
Variable Hour or Seasonal Employees

- ❖ Effective January 1, 2014
- ❖ Part-time and seasonal employees averaging less than 30 hours/week = no penalty!
- ❖ Work week must be tied to regular expected work period in the relevant job (9 month/10 month employees)
- ❖ **Substitute Teachers – likely to be below 30 hour eligibility but could vary for “full-time” subs**
- ❖ Formulas are used to determine eligibility for variable hour and seasonal employees – Can get complex!

New Variable Hour and Seasonal Employee



Individual Mandate -2014



Individual Penalty

Penalty amount is the greater of*:

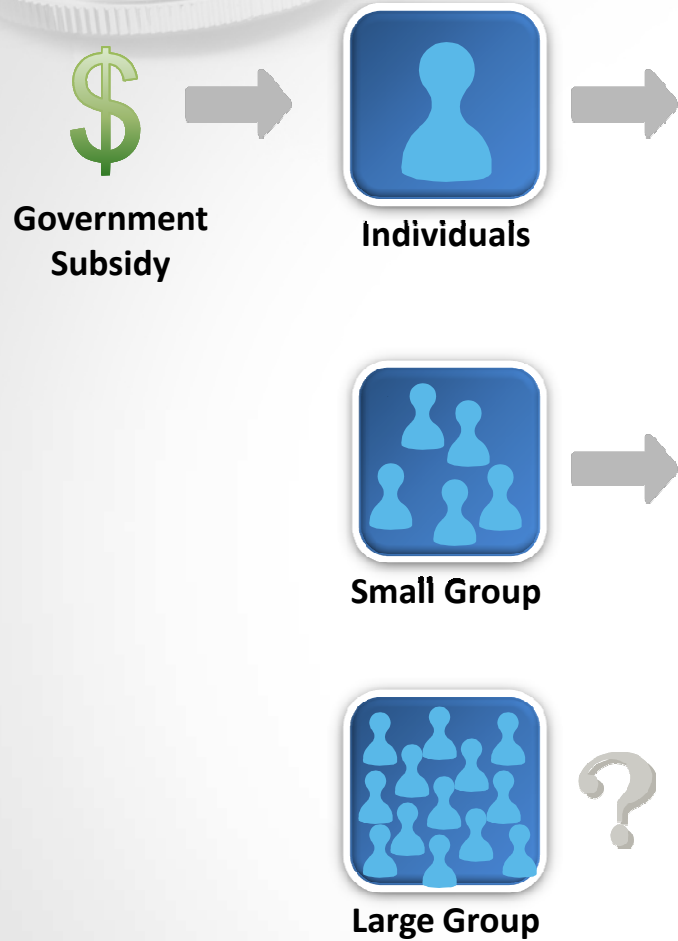


Year	Flat Dollar Amount** (max of 300 % for family)	% of Household Income
<ul style="list-style-type: none"> • 2014 • 2015 • 2016 • After 2016 	<ul style="list-style-type: none"> • \$95 up to \$285 • \$325 up to \$975 • \$695 up to \$2,085 • \$695, indexed for inflation in \$50 increments 	<ul style="list-style-type: none"> • 1.0 • 2.0 • 2.5 • 2.5

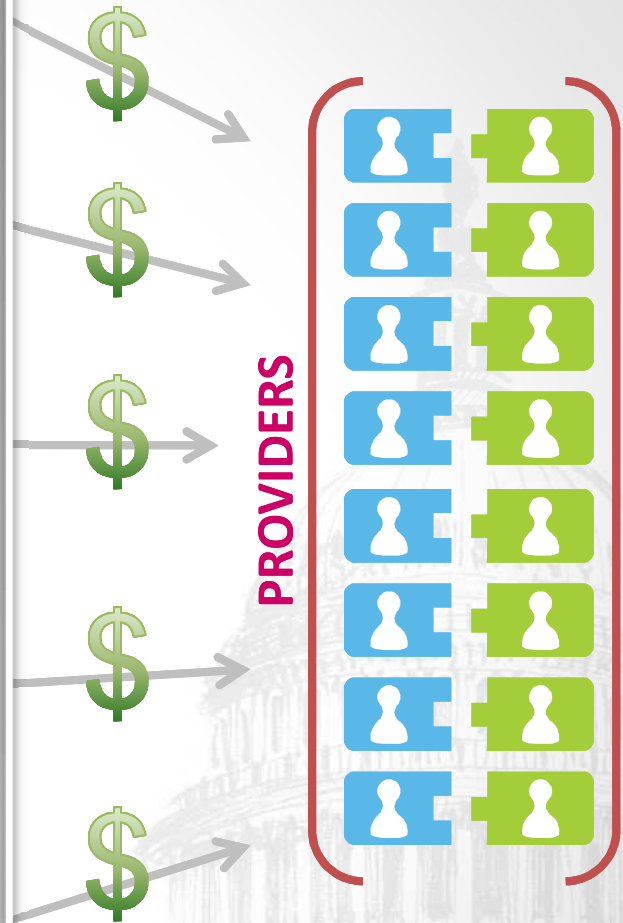
*Capped at the national average of the annual cost of a bronze level health insurance plan, for the family size, offered through the state exchange.

**Halved for dependents under age 18 (but do not halve when determining 300% cap on dollar amount for those NOT insured by taxpayer)

Exchanges - 2014



CHOICE POOL



Exchanges – Premium Assistance

Premium Assistance Credit

- ❖ Most individuals who are eligible for employer-sponsored coverage **will not** be eligible to receive premium assistance
- ❖ Unless:
 - Low value plan (less than 60% actuarial value)
 - Unaffordable (employee-only contribution is greater than 9.5% of income*)



** Proposed IRS safe Harbor for regulations*

On the Horizon - "Cadillac" Tax - 2018



COBRA Rate \geq \$10,200 for individual or
\$27,500 for family



**= 40% of plan value that
exceeds threshold**



Cadillac Tax and You

- ❖ What are your current medical plan rate levels?
- ❖ Look at all plans, no low cost plan safe-harbor!
- ❖ What have average increases been over last couple of years?
- ❖ What tiers does the District use for rates?
- ❖ Trending out costs to 2018, how do you look?
- ❖ CalPERS plans project to be are over the limits!



HC Reform – Things to Remember

- ❖ No one knows all the answers, yet!
- ❖ Stay tuned as additional guidance is published – what seemed reasonable may change!
- ❖ Recognize for fully insured plans, much of the compliance work falls to the carrier.
- ❖ Recognize that the impact of the fees/taxes will impact your rates, whether insured or self-funded.
- ❖ Throwing in the towel and going to the exchanges may not be an option at the employer level for many.
- ❖ ASCIP and Gallagher will help keep you informed!

Online Healthcare Reform Resources

GBShealthcarereform.com

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Healthcare Reform

Healthcare Reform

The dramatic change to the healthcare landscape ushered in by the passage of the Patient Protection and Affordable Care Act (PPACA) may present a daunting challenge in understanding the myriad of potential impacts to you and your employees, while achieving your business objectives. As with most major legislation, the interpretation and implementation of the regulations may bring legal challenges which can result in new or modified requirements.

GBS' team approach and market-leading financial and analytical modeling tools will guide you through the Healthcare Reform labyrinth. As your guide and advisor, we will work with you to understand the strategic, financial, and operational impacts today and in the future.

TIMELINE

Timeline of key changes for employers over the next few years. [Read Our Timeline](#)

NEWSLETTERS

GBS' Healthcare Reform Update Newsletters keep you up-to-date on all significant topics on Healthcare Reform. [Read Our Newsletters](#)

FAQs

An extensive list of Frequently Asked Questions on Healthcare Reform. [Read Our FAQs](#)

WEBINARS

On-demand webinars offering updates on hot topics, review on major provisions, and more. [View Our Webinars](#)

UPDATES

Keeping track of Healthcare Reform requirements and official guidance is a challenge. Our Updates section provides a list of major Healthcare Reform provisions,

TOOLS & RESOURCES

GBS' proprietary suite of tools will help you assess and manage the financial, strategic and operational impact of Healthcare Reform. Links to available Resources on the

Affordable Care Act and Premium Contributions

Trends and Considerations

Dan Sanger
Director of Health Benefits
ASCIP



Alliance of Schools for Cooperative Insurance Programs



We've got you covered.

Enrollment and Contribution History

XYZ District

2012	EPO	PPO	Kaiser
District Contribution	\$975.00	\$975.00	\$975.00
Employee Contribution	<u>\$155.00</u>	<u>\$325.00</u>	<u>\$190.00</u>
Premium	\$1,130.00	\$1,300.00	\$1,165.00
Enrollment	230	770	2,200

2013	EPO	PPO	Kaiser	HD EPO	HD PPO
District Contribution	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00	\$1,000.00
Employee Contribution	<u>\$130.00</u>	<u>\$470.00</u>	<u>\$245.00</u>	<u>\$0.00</u>	<u>\$225.00</u>
Premium	\$1,130.00	\$1,470.00	\$1,245.00	\$1000.00	\$1,225.00
Increase %	0.0%	13.1%	6.6%		
Enrollment	360	440	2,120	60	30



Contribution Strategies Considerations

Employee Plan Selection Criteria

1. Young & Healthy
Lowest Cost Plan
Kaiser
2. “Middle Tier” Age & Health Status
Premium Contribution
Plan Design
Deductibles, Office Visit Copays, Rx Copays
HMO > PPO
3. “Experienced” Employees
Plan Design
Deductibles, Office Visit Copays, Rx Copays
Premium Contributions
PPO > HMO



Enrollment and Contribution Strategy

ACA Affordability Issues

Year 1	HMO	PPO
District Contribution	\$320.00	\$330.00
Employee Contribution	<u>\$330.00</u>	<u>\$420.00</u>
Premium	\$650.00	\$750.00
Enrollment	500	500

Affordability Earnings Threshold = $\$330/9.5\% \times 12 = \$41,684$

Problem: Too many employees below \$41,684. May trigger ACA penalties.

Solution: Drop the employee contribution of the lowest cost plan (HMO)

Result: The Adverse Selection Spiral



Enrollment and Contribution Strategy

The PPO Adverse Selection Spiral

Year 1	HMO	PPO
District Contribution	\$320.00	\$330.00
Employee Contribution	<u>\$330.00</u>	<u>\$420.00</u>
Premium	\$650.00	\$750.00
Enrollment	500	500

Year 2	HMO	PPO
District Contribution	\$400.00	\$330.00
Employee Contribution	<u>\$250.00</u>	<u>\$500.00</u>
Premium	\$650.00	\$830.00
Enrollment	700	300

Year 3	HMO	PPO
District Contribution	\$400.00	\$330.00
Employee Contribution	<u>\$250.00</u>	<u>\$600.00</u>
Premium	\$650.00	\$930.00
Enrollment	850	150

Year 4	HMO	PPO
District Contribution	\$400.00	\$330.00
Employee Contribution	<u>\$250.00</u>	<u>\$700.00</u>
Premium	\$650.00	\$1,030.00
Enrollment	950	50



Contribution Strategies Considerations

- Flat district premium contributions can create unaffordable PPO plans
- Enrollees do make rational choices based on their incomes and health status
- Short term fix can be long term problem
 - Weigh the risks of ACA affordability penalties against the risks of triggering the adverse selection spiral

