



September 16, 2010

Healthcare Reform implication for employers - Planning ahead for 2014

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Agenda

- Setting the stage – just to recap
- The political context
- 2013 and beyond
 - Plan design mandates
 - The health insurance landscape in 2014
- Questions?

Key elements of health reform for employers

September 7, 2010

- Change in tax treatment for over-age dependent coverage
- Accounting impact of change in Medicare retiree drug subsidy tax treatment
- Early retiree medical reinsurance
- Medicare prescription drug “donut hole” beneficiary rebate
- Auto-enrollment of full-time employees (effective TBD)
- Break time/private room for nursing moms

- Employers must distribute uniform benefit summaries to participants
- Employers must provide 60-day advance notice of material modifications (effective TBD)
- Form W-2 reporting for 2011 health coverage
- Group health plan fees begin

- Health insurance exchanges
- Individual coverage mandate
- Financial assistance for exchange coverage of low-income individuals
- Medicaid expansion
- HIPAA wellness limit increases
- Shared responsibility penalties
- Free-choice vouchers
- Additional reporting and disclosure

- Dependent coverage to age 26 for any covered employee’s child**
- No annual dollar limits**
- No pre-existing condition limits**
- No waiting period over 90 days**
- Additional new standards for new or “non-grandfathered” health plans, including limited cost-sharing
- Health insurance industry fees begin



- Dependent coverage to 26 (grandfathered plans may limit to children without access to other employer coverage, other than parent’s coverage)*
- No lifetime dollar limits*
- Restricted annual dollar limits, phased amounts until 2014*
- No pre-existing condition limitations for enrollees up to age 19*
- No rescissions*
- Additional standards for new or “non-grandfathered” health plans, including non-discrimination provisions for insured plans and mandatory preventive care in network with no cost-sharing

- No health FSA/HRA/HSA reimbursement for non-prescribed drugs
- Increased penalties for non-qualified HSA distributions
- Voluntary long-term care “CLASS” program slated to start
- Pharmaceutical manufacturers’ fees start
- Medicare, Medicare Advantage benefit and payment reform
- Insurers subject to medical loss ratio rules

- \$2,500 health FSA contribution cap (indexed)
- Medical device manufacturers’ fees start
- Higher Medicare payroll tax on wages exceeding \$200,000/ individual; \$250,000/couples
- New tax on net investment income for taxpayers with incomes exceeding \$200,000/ individual; \$250,000/couples
- Change in Medicare retiree drug subsidy tax treatment takes effect

- Excise tax on “high cost” or Cadillac plans

* Applies to all plans, including “grandfathered” plans, effective for plan years beginning on or after Sept. 23, 2010 (Jan. 1, 2011, for calendar year plans).

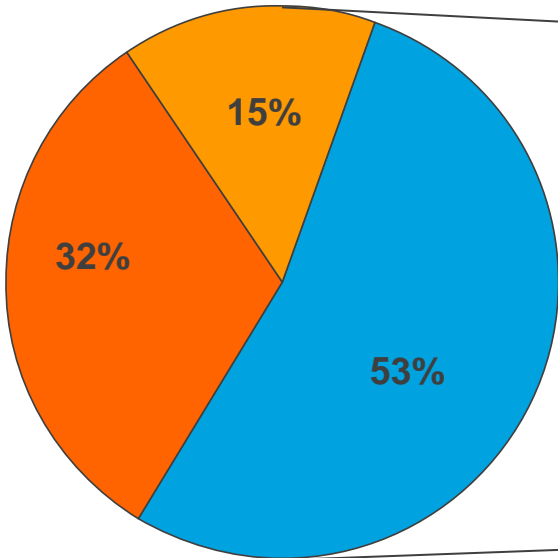
** Applies to all plans, including grandfathered plans, effective for plan years beginning on or after Jan. 1, 2014.

New Plan Standards

Will there be any grandfathers?

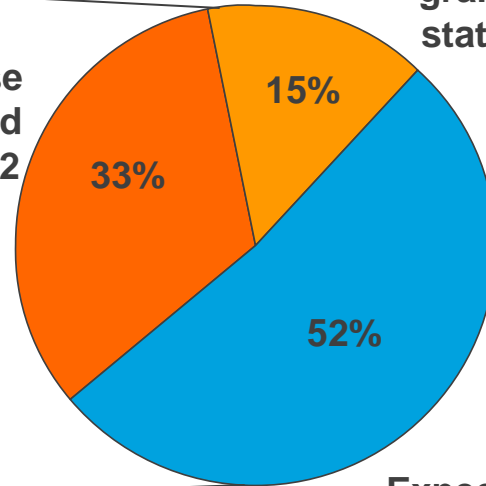
Of those maintaining grandfathered status of at least one plan in 2011, about half expect to lose it before 2014

Lose grandfathered status in 2011 for at least one plan, but not all plans



Expect to lose grandfathered status in 2013

Expect to lose grandfathered status in 2012



Expect to maintain grandfathered status until 2014

Maintain grandfathered status for all plans in 2011

Just to recap... New Plan Standards

All Plans

PPACA Requirement	Effective Date (first plan year after)	
	Nongrandfathered plans	Grandfathered plans
Provide adult child coverage to age 26	September 23, 2010	September 23, 2010 <ul style="list-style-type: none"> ▪ When no other employer coverage available January 1, 2014 <ul style="list-style-type: none"> ▪ For all children
Ban lifetime and restricted annual dollar limits on “essential health benefits”	September 23, 2010	September 23, 2010
Ban pre-existing condition exclusions for children (<19 yrs)	September 23, 2010	September 23, 2010
Ban rescissions	September 23, 2010	September 23, 2010
Provide uniform summary of benefits	Expected by March 23, 2012	Expected by March 23, 2012
Provide notice of availability of health insurance exchanges	By March 1, 2013	By March 1, 2013
Ban annual dollar limits on “essential health benefits”	January 1, 2014	January 1, 2014
Ban pre-existing condition exclusions for all	January 1, 2014	January 1, 2014
Ban waiting periods over 90 days	January 1, 2014	January 1, 2014

New Plan Standards

Non-grandfathered plans

PPACA Requirement	Effective Date (first plan year after)	
	Nongrandfathered plans only	Grandfathered plans
Cover mandated preventive services with no cost sharing	September 23, 2010	N/A
Adopt designation rules for primary care physician	September 23, 2010	N/A
Comply with rules on emergency services benefits	September 23, 2010	N/A
Establish internal and external appeals procedures and provide notice	September 23, 2010	N/A
Disclose plan data	September 23, 2010	N/A
Report on quality-of-care measures and give employees notice	September 23, 2010	N/A
Cover routine patient costs for clinical trial participants	January 1, 2014	N/A
Limit annual cost sharing amounts and deductibles	January 1, 2014	N/A
Comply with new provider nondiscrimination rules	January 1, 2014	N/A
Ban eligibility terms that discriminate based upon health	January 1, 2014	N/A

New notices and disclosures

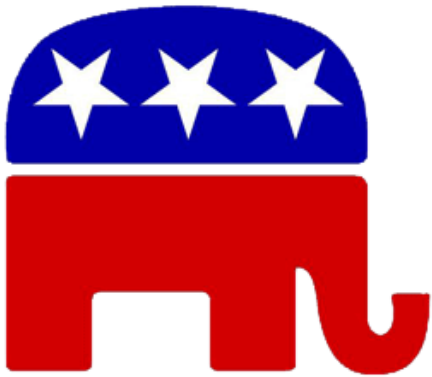
PPACA reporting and disclosure provisions	
Plan years starting on or after Sept. 23, 2010	
Dependent coverage extension and enrollment notice	All group health plans
Lifetime limits elimination and enrollment notice	All group health plans
30-day advance notice of coverage rescission	All group health plans
Grandfathered status disclosure	Grandfathered group health plans
Provider choice notice	All group health plans, unless grandfathered
Notices of adverse benefit determination, final internal adverse benefit determination and final external review decision	All group health plans, unless grandfathered
Disclosure of plan data	All group health plans, unless grandfathered
Quality-of-care report and employee notice	All group health plans, unless grandfathered
Tax years starting on or after Jan. 1, 2011 (first report due in 2012)	
Form W-2 health coverage reporting	All employers offering group health plans and/or contributing to health savings accounts (HSAs) or health reimbursement arrangements (HRAs)
Beginning Jan. 1, 2012	
Expanded Form 1099-MISC reporting	Any business paying more than \$600 to a property or service provider in calendar year
By March 23, 2012	
Summary of benefits	All group health plans
By March 1, 2013	
Health insurance exchange notice	All employers, regardless of health plan offering
Starting in 2014	
Employer report of health coverage offerings	Employers with more than 50 full-time equivalent (FTE) employees; certain other employers offering group health plan coverage
Employer report of individual health coverage	Employers offering self-funded group health coverage; insurers providing insured coverage
Starting in 2018	
Notice of high-cost coverage subject to excise tax	Employers and others liable for excise tax
Effective date uncertain	
Material modification notice	All group health plans
Auto-enrollment notice	All employers subject to the Fair Labor Standards Act (FLSA) that have more than 200 full-time employees and offer a group health plan

What will happen after the November elections?

RASMUSSEN
REPORTS

56% Favor Repeal of Health Care Bill; 39% Say Repeal Is Likely

Sept. 6, 2010



If Republicans win the House – watch for attempts to restrict funding for health care reform, and could focus on limited attempts to narrow reforms, e.g., individual mandate, comparative effectiveness, Independent Payment Advisory Board. Even if Republicans win both the House and Senate, repeal of PPACA is extremely unlikely between 2010 and 2012



If Democrats retain the House and Senate, they will resist efforts to change PPACA, though they could enact limited changes as long as deficit concerns are not heightened

Health Reform From 2013 to 2018



- Auto-enrollment (may be earlier)
- Individual coverage mandate
- Medicaid expansion
- Health insurance exchanges
- Income-based assistance for exchange coverage of low-income individuals
- Shared responsibility penalties
- Free-choice vouchers
- Additional reporting and disclosure
- Dependent coverage to age 26 for any covered employee's child**
- No annual dollar limits**
- No pre-existing condition limits**
- No waiting period over 90 days**
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- Additional new standards for new or "non-grandfathered" health plans, including limited cost-sharing
- Health insurance industry fees begin



- \$2,500 health FSA contribution cap (indexed)
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- Higher Medicare payroll tax on wages exceeding \$200,000/ individual; \$250,000/couples
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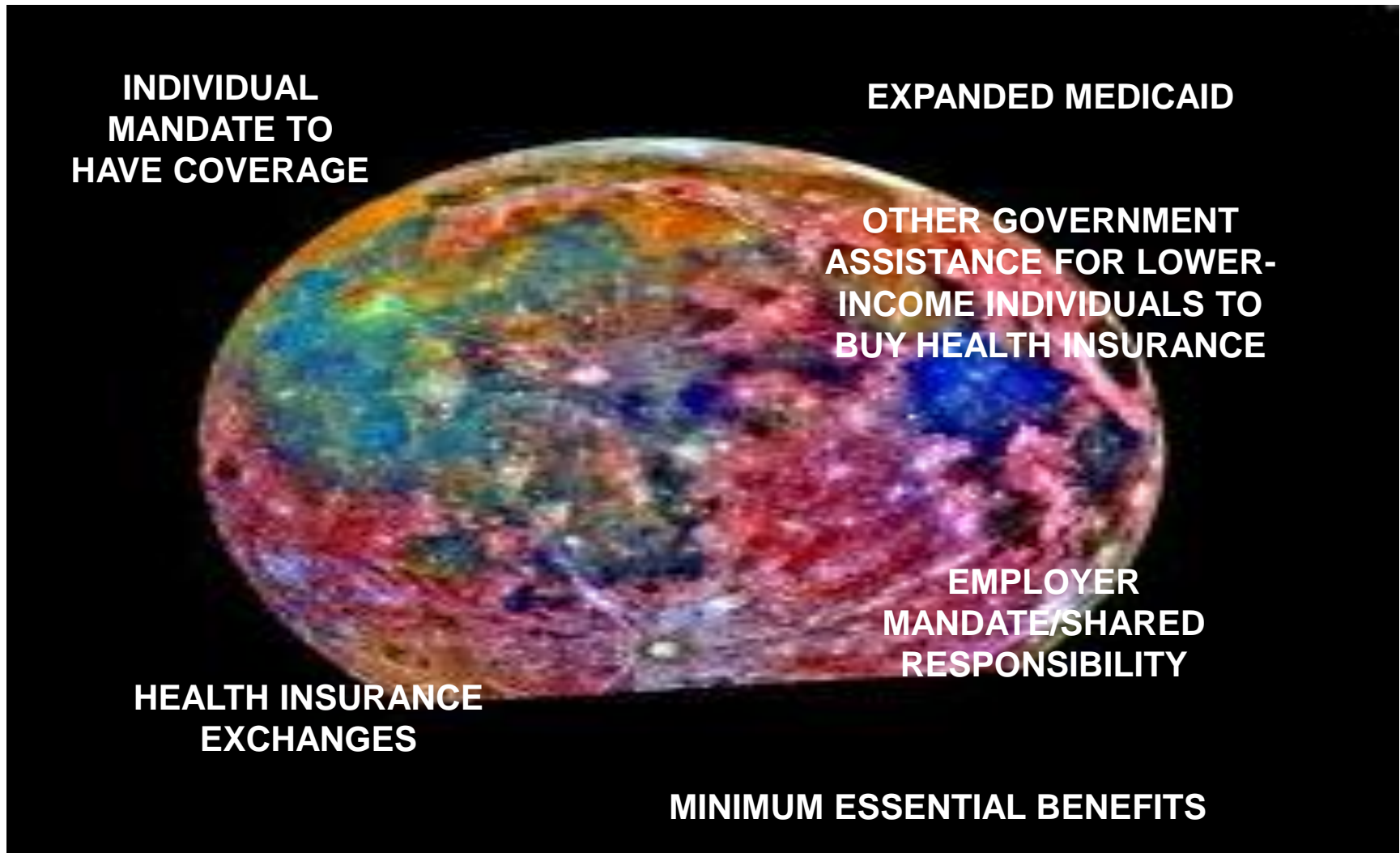
- Excise tax on "high cost" or Cadillac plans

*** Applies to all plans, including grandfathered plans, effective for plan years beginning on or after Jan. 1, 2014.*

Key employer issues for 2014 and beyond – first things first...

- Eligibility and design changes
 - No waiting period beyond 90 days
 - Remove annual limits on essential health benefits
 - Essential health benefits still undefined
 - Employers must offer affordable coverage to all full-time employees (30 hours per week or more) or face tax penalties
- Enrollment and participation
 - Mandatory auto-enrollment of full-time employees with opt-out (uncertain effective date)
 - Individual mandate
 - Minimum essential coverage required or most individuals will face a tax penalty (\$95 in 2014 (or 1% of income), phasing in to \$695 in 2016 (or 2.5% of income))

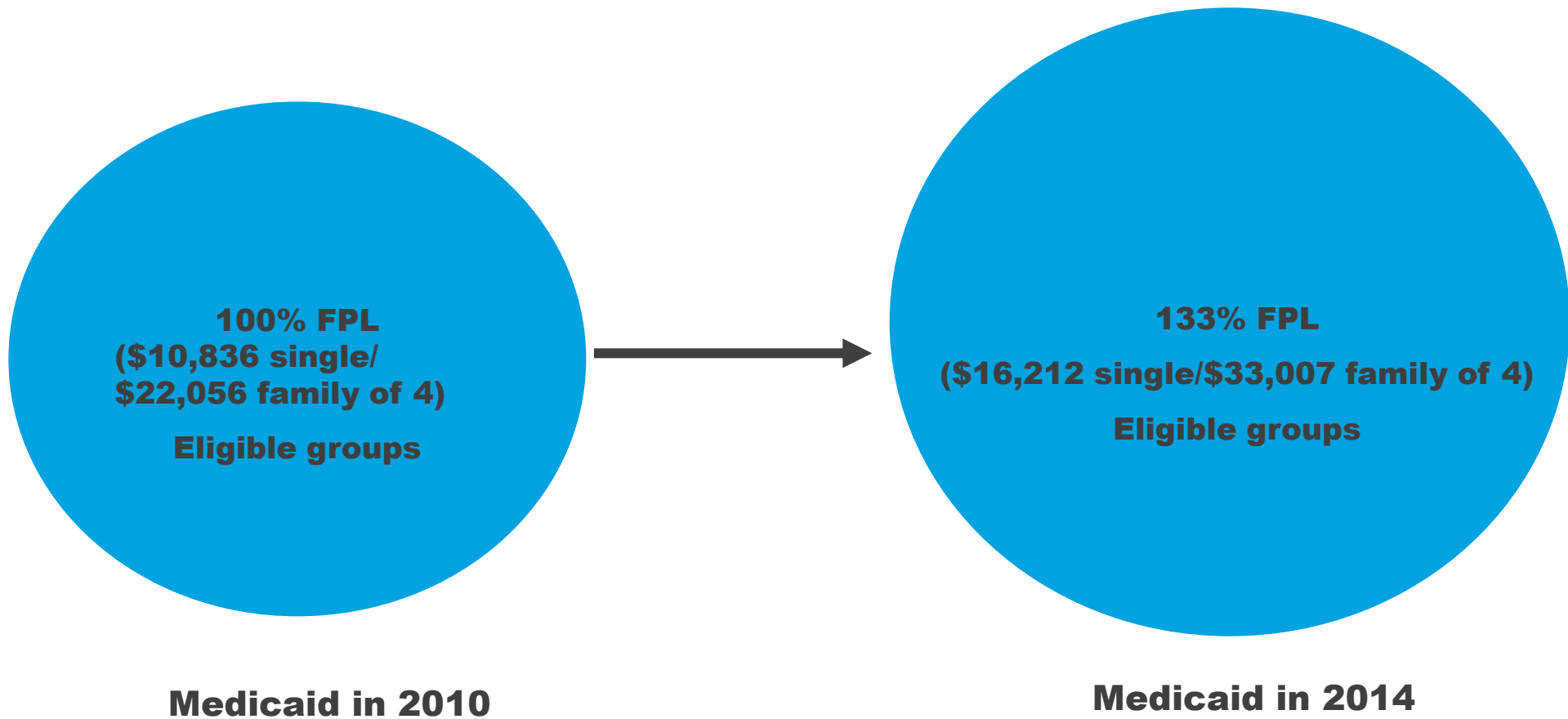
A new landscape ...



2014- A whole new experience...
Everybody into the pool!



More people eligible for Medicaid



Eligibility for Medicaid and subsidy

- Household income and family size determine eligibility for Medicaid and for subsidy in exchange
 - Medicaid eligibility raised to 138% FPL in 2014**
 - Only those with income \leq 400% FPL eligible for tax credits

Family Size	2010 FPL*	2014 FPL*	Medicaid Eligibility Threshold - 2014 Estimate* (138% FPL)	Exchange Subsidy Threshold - 2014 Estimate* (400% FPL)
Single	\$10,836	\$12,196	\$16,830	\$48,784
Family of 2	\$14,580	\$16,410	\$22,646	\$65,640
Family of 3	\$18,312	\$20,610	\$28,442	\$82,440
Family of 4	\$22,056	\$24,824	\$34,257	\$99,296
Family of 5	\$25,800	\$29,038	\$40,072	\$116,152
Family of 6	\$29,532	\$33,239	\$45,870	\$132,956
Family of 7	\$33,276	\$37,452	\$51,684	\$149,808
Family of 8	\$37,020	\$41,666	\$57,499	\$166,664

* Federal Poverty Level (FPL) assumed to increase 3% per year

** Health reform legislation specifies income threshold of 133% FPL but also requires states to apply an “income disregard” of 5% of FPL in meeting income test; effective income threshold for eligibility is 138%

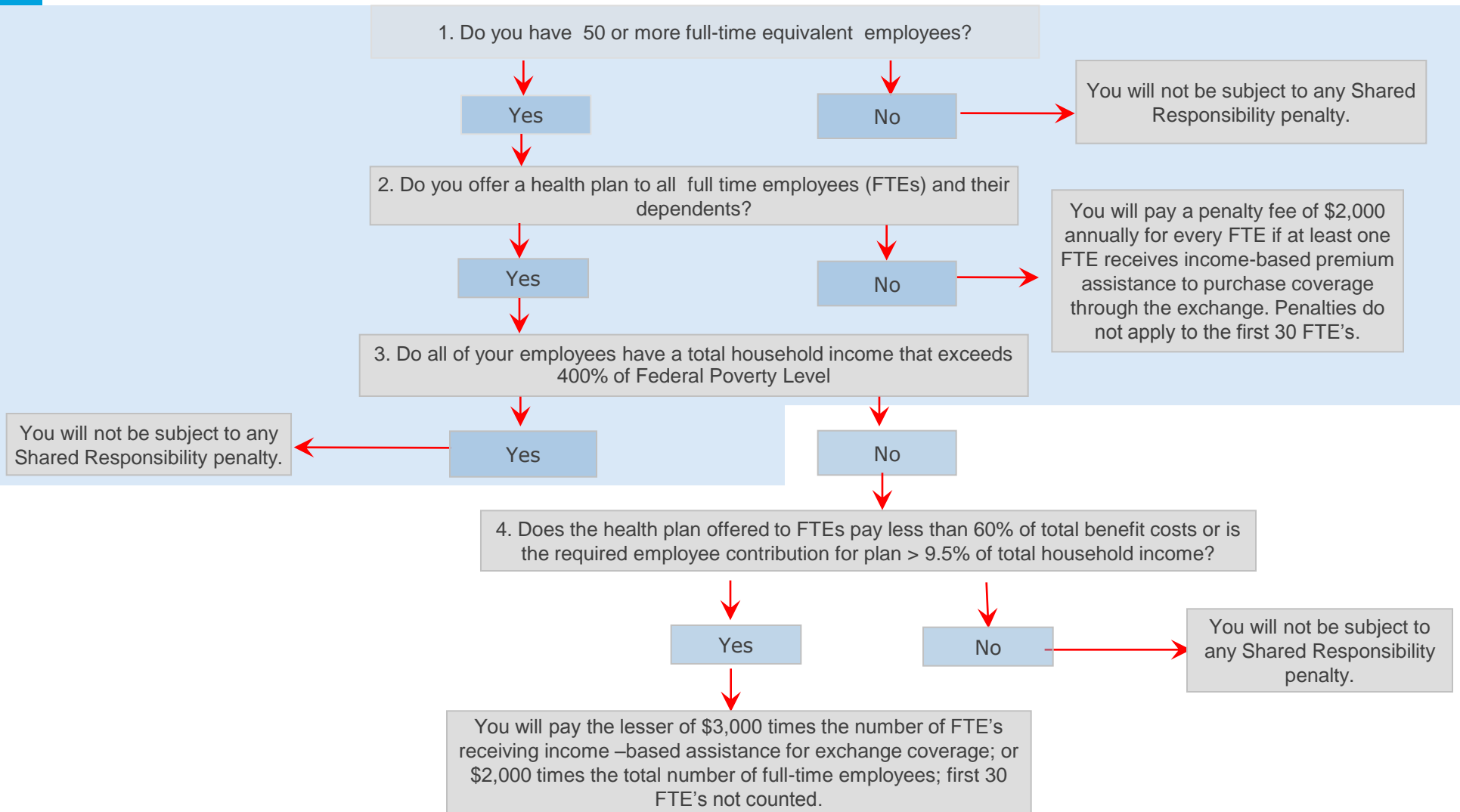
Financial assistance for certain people not Medicaid-eligible

- Federal premium tax credits and cost-sharing reductions
 - Household income \leq 400% FPL
 - No employer coverage available or
 - Employer coverage is unaffordable or does not meet minimum actuarial value
 - Plan must cover at least 60% of the value of benefits to meet minimum value
 - Employee contribution for self-only coverage that exceeds 9.5% of household income is unaffordable
 - If at least one full-time employee is eligible for premium tax credit or cost-sharing reduction, employer faces “shared responsibility penalties”

- Free choice vouchers from employers
 - Household income \leq 400% FPL and
 - Eligible for employer coverage and
 - Employee contribution is between 8% and 9.8% of household income
 - Voucher payments are what employer’s cost would have been had employee enrolled in option with largest employer-paid share of the contribution
 - If exchange premium cost less than voucher, employee keeps the difference (taxable)

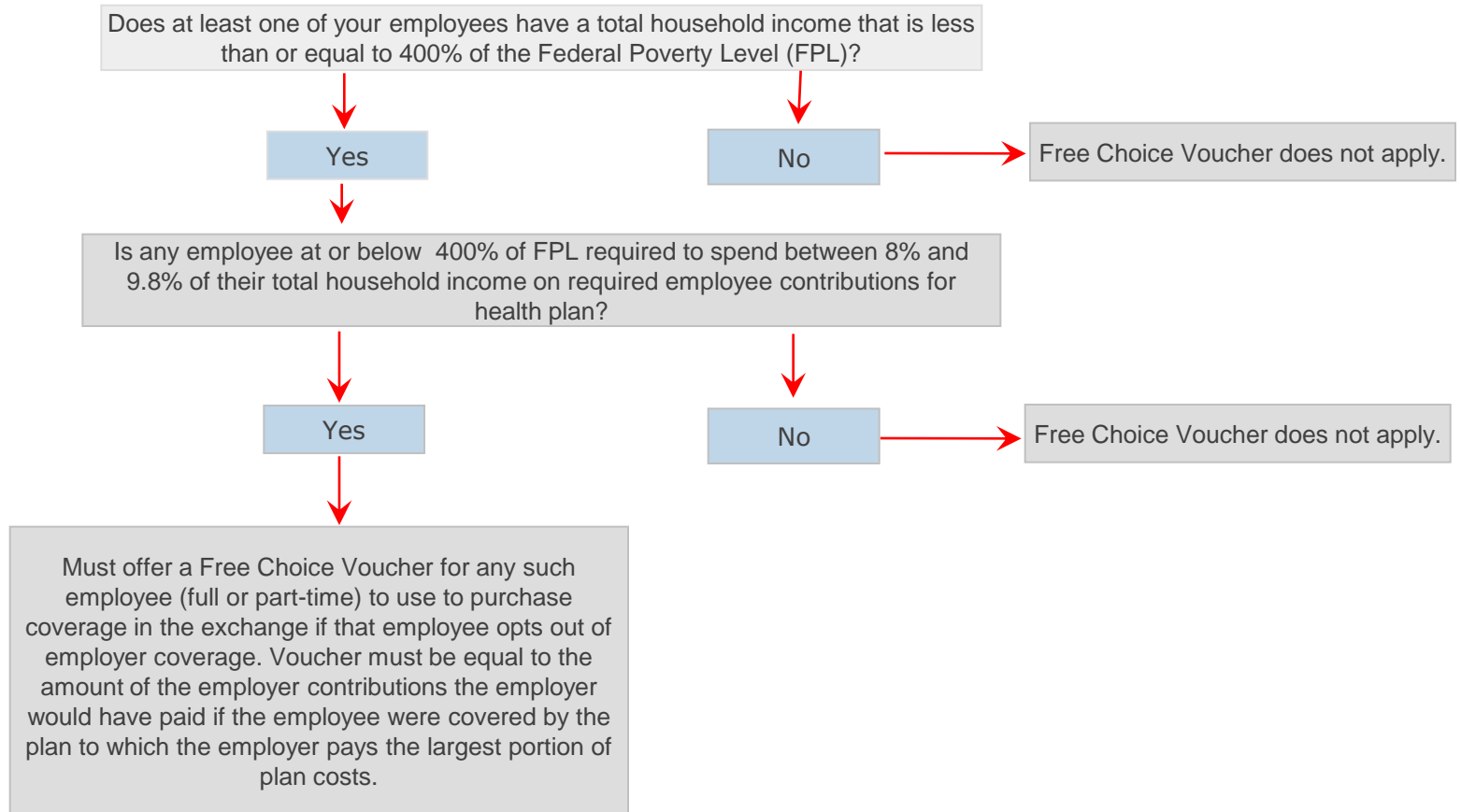
Shared Responsibility – Decision Tree

Effective in 2014



Free Choice Voucher* – Decision Tree

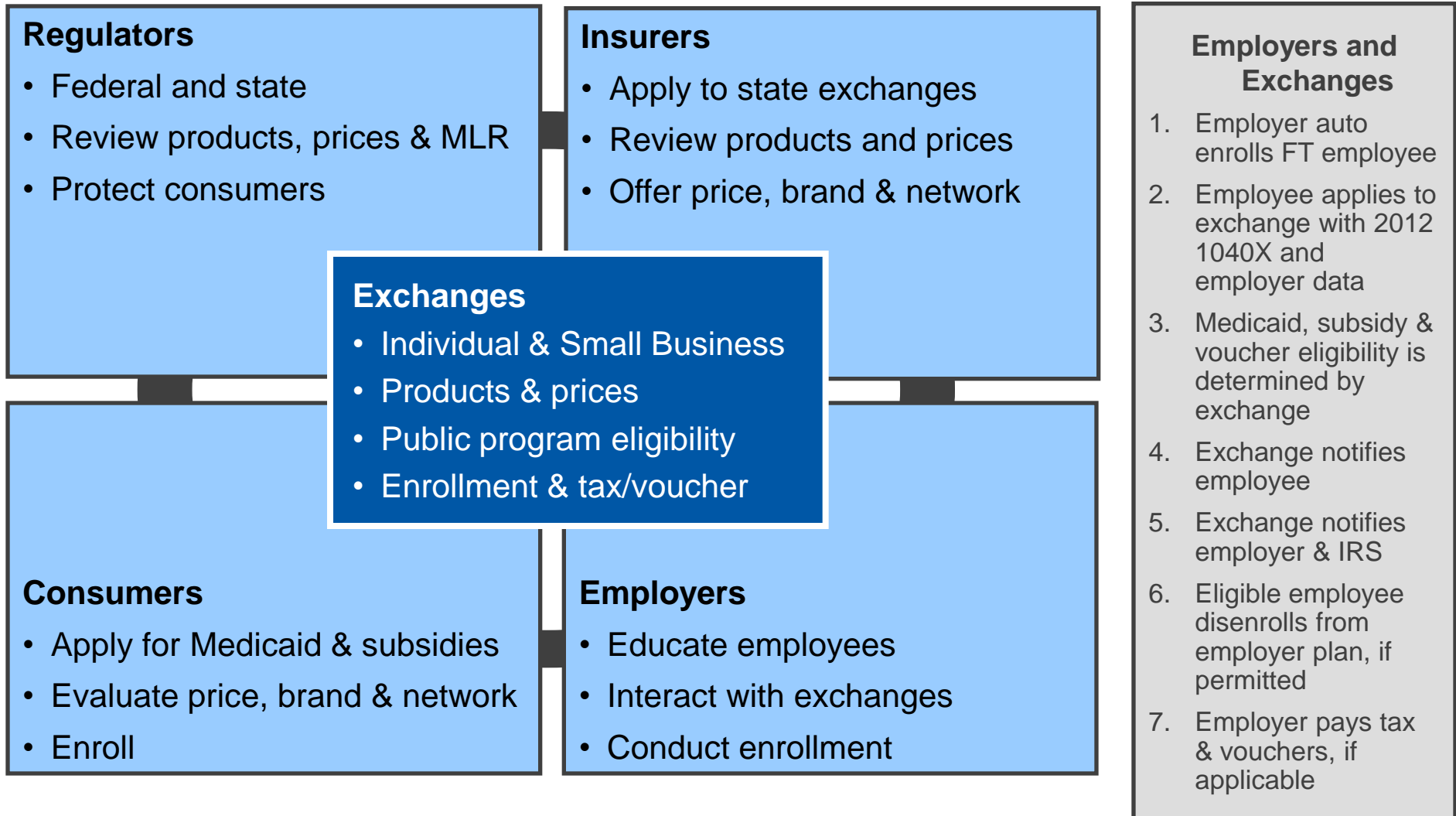
Effective in 2014



* Applies to all Employers, regardless of size.

2014: How Exchanges Will Work

Exchanges Determine Eligibility & Manage Enrollment



Health Reform 2014

Standardized Exchange Products Will Differ From Group Plans

Features	Exchanges				Individual	Group
	Bronze	Silver	Gold	Platinum	Catastrophic (age <30)	Plan Design ⁽¹⁾
Covered services	Essential & preventive benefits	Essential & preventive benefits	Essential & preventive benefits	Essential & preventive benefits	HSA rules	Essential benefits not required, but preventive services required
Plan value	60%	70%	80%	90%	HSA rules	≥60%
Deductible maximums	HSA rules	HSA rules	HSA rules	HSA rules	HSA rules	\$2,000 (I) 2 \$4,000 (F) 2
2010 cost sharing maximums	Up to \$5,950 (I) \$11,900(F)	Up to \$5,950 (I) \$11,900(F)	Up to \$5,950 (I) \$11,900(F)	Up to \$5,950 (I) \$11,900(F)	Up to \$5,950 (I) \$11,900(F)	Up to \$5,950 (I) 2 \$11,900(F) 2
Essential benefits	No dollar limits	No dollar limits	No dollar limits	No dollar limits	HSA rules	No dollar limits if covered
Preventive	No cost	No cost	No cost	No cost	HSA rules	No cost

1. Some provisions apply differently for grandfathered and non-grandfathered plans. 2. Based on current interpretation.

2014: Impact of law on employers that offer benefits

Most new requirements raise costs and risks

Eligibility and enrollment ¹	Plan design ¹
<ul style="list-style-type: none">▪ Individual mandate▪ Automatic enrollment▪ 90-day waiting period maximum▪ Medicaid▪ Subsidies and vouchers▪ Families follow employees; no splitting²▪ Dependent eligibility is optional²	<ul style="list-style-type: none">▪ 60% plan value minimum▪ Essential benefits are optional▪ Eliminate dollar limits, if covered▪ Deductibles up to \$2,000/\$4,000² (indexed)▪ Cost-sharing up to HSA limits² (indexed)
Premium contributions ¹	Delivery and insurance ¹
<ul style="list-style-type: none">▪ Affordability based on employee-only contribution▪ Dependent contributions can differ from employee contributions²▪ For eligible workers in exchanges:<ul style="list-style-type: none">– Vouchers for full-time and part-time– Shared responsibility tax for full-time▪ Annual increase in thresholds and taxes	<ul style="list-style-type: none">▪ Medicaid and public exchanges▪ Minimum loss ratios for insured plans▪ Individual non-group product regulations▪ Self-insured and insured group product rules

1. Partial list; some provisions apply differently for grandfathered and non-grandfathered plans. 2. Based on current interpretation.

2014: Impact for employers that offer benefits

New costs from enrollment increases and taxes

Sources of new costs	Risk factors
<ul style="list-style-type: none">✓ More employees enrolling✓ More dependents enrolling✓ New benefit requirements may increase plan costs✓ Raising employer contributions to exceed affordability levels✓ New taxes and vouchers✓ High-cost plan excise tax (2018)	<ul style="list-style-type: none">▪ High employee opt-out/waiver rate▪ High dependent opt-out rate▪ Low-value plans▪ Low employer contributions▪ High subsidy and voucher eligibility▪ High plan costs and trend

Cost impact will vary by industry and workforce segment.

Cost mitigating strategies are available.

Strategic health benefit planning

Responding to health reform: Understanding, planning and action

▪ On the horizon

- Increased enrollment
- Expanded Medicaid
- New benefit floors and ceilings
- New benefit benchmarks
- Exchanges and a new individual insurance market
- Increased regulation of insured and self-insured plans
- Help for low-income people
- More consumer protections

▪ Premiums and costs

- Controlled or faster growth?

▪ Key actions for employers

- Understand 2014
 - Expanded public programs
 - Emerging markets
- Identify new costs and savings by workforce segment
- Design new cost sharing, benefit plans and contributions
- Develop new ways to deliver and manage health benefits
- Create affordable reward packages that attract and retain workers
- Meet new communication and enrollment requirements
- Avoid excise taxes

▪ Developing flexible strategies

- Adapt to regulations and market

2011
Plan and optimize

2012
Strategy

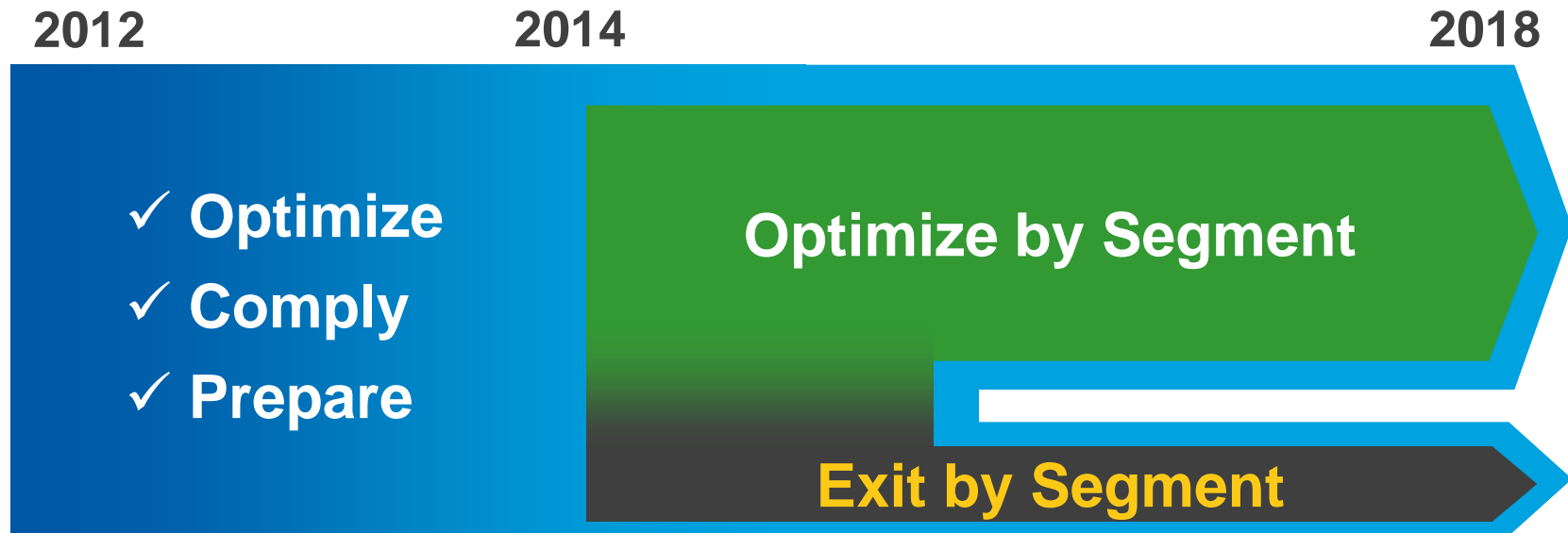
2013
Enroll/Exit

2014
Enroll/Exit

2018
Excise tax

Strategic health benefit planning

2012–2018: Two major strategic options



1. Most companies will optimize their current programs.

2. Some companies will exit plan sponsorship.

Many companies will tailor strategies by workforce segment.

Many companies will reduce benefits to avoid high-cost excise tax.

QUESTIONS??????

MERCER



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