April 2013

NEW WORLD OF HEALTHCARE BENEFITS:
Summary of the Challenges and Opportunities
Presented by State Health Exchanges

Lawrence Singer
Segal Sibson

Follow this and additional works at: http://thekeep.eiu.edu/jcba

Recommended Citation
Available at: http://thekeep.eiu.edu/jcba/vol0/iss8/23

This Proceedings Material is brought to you for free and open access by The Keep. It has been accepted for inclusion in Journal of Collective Bargaining in the Academy by an authorized editor of The Keep. For more information, please contact tabruns@eiu.edu.
National Center for the Study of Collective Bargaining in Higher Education and the Professions
Hunter College 425 E. 25th Street
New York, NY 10010 (212) 481-7550
national.center@hunter.cuny.edu

NEW WORLD OF HEALTHCARE BENEFITS: Summary of the Challenges and Opportunities Presented by State Health Exchanges

Lawrence Singer, Senior Vice President
Segal Sibson
333 West 34th Street, New York, NY 10001 212.251.5095 lsinger@segalco.com

April 9, 2013

Copyright ©2013 by The Segal Group, Inc., parent of The Segal Company. All rights reserved.
Elements of Healthcare Trend

➢ Inflation

➢ Utilization

➢ Intensity
Elements of Healthcare Trend

- Inflation
- Utilization
- Intensity
- Cost Shifting
Most Popular Provisions of the Affordable Care Act Among Least Widely Recognized (And Vice Versa)

Percent who say they feel favorable about each of the following and percent who say they are aware each is included

<table>
<thead>
<tr>
<th>Provision</th>
<th>Favorable View (%)</th>
<th>Aware (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax credits to small businesses to reduce costs</td>
<td>52%</td>
<td>88%</td>
</tr>
<tr>
<td>Close Medicare &quot;doughnut hole&quot;</td>
<td>46%</td>
<td>81%</td>
</tr>
<tr>
<td>Create health insurance exchanges</td>
<td>58%</td>
<td>80%</td>
</tr>
<tr>
<td>Extension of dependent coverage</td>
<td>69%</td>
<td>76%</td>
</tr>
<tr>
<td>Subsidy assistance to individuals</td>
<td>62%</td>
<td>76%</td>
</tr>
<tr>
<td>Medicaid expansion</td>
<td>59%</td>
<td>71%</td>
</tr>
<tr>
<td>Guaranteed issue</td>
<td>53%</td>
<td>66%</td>
</tr>
<tr>
<td>Medical loss ratio</td>
<td>40%</td>
<td>65%</td>
</tr>
<tr>
<td>Increase Medicare payroll tax</td>
<td>54%</td>
<td>60%</td>
</tr>
<tr>
<td>Employer mandate/penalty for large employers</td>
<td>57%</td>
<td>71%</td>
</tr>
<tr>
<td>Individual mandate/penalty</td>
<td>40%</td>
<td>74%</td>
</tr>
</tbody>
</table>

NOTE: Items asked of separate half samples. Question wording abbreviated. See topline [here](http://www.kff.org/kaiserpolls/8425.cfm) for complete wording

Source: Kaiser Family Foundation Health Tracking Poll (conducted March 5-10, 2013)
What Does the Affordable Care Act Accomplish?

➢ It changes who gets healthcare benefits
  • Dependent eligibility rules to age 26
  • Pre-existing condition limits

➢ It changes what benefits are provided
  • Essential benefits with no annual or lifetime maxima
  • Paid-in-full preventive services
  • No prior authorization for emergency services

➢ It changes how health plans are administered
  • Claims and appeals
  • Summary of Benefits and Coverage
  • Medical loss ratio limits
  • Reporting the value of employer-sponsored coverage on W-2s
What Does the Affordable Care Act Accomplish?

➤ **It has certain new taxes and fees**
  ● Comparative Effectiveness Research Fee
  ● Reinsurance Fee
  ● Insurance Tax
  ● Pharmaceutical Industry Tax
  ● Medical Device Manufacturer Tax
  ● Indoor Tanning Services Tax
  ● 20% tax for non-qualified HSA withdrawals
  ● High Cost Health Plan Excise Tax

➤ **It makes various Medicare changes**
  ● Closes the coverage gap under Part D
  ● Reduces the subsidy in Medicare Advantage Plans
  ● Slows the increase in provider payments by making various changes to the delivery system-
    Accountable Care Organizations
What Does the Affordable Care Act Accomplish?

▸ It provides certain subsidies to health plans
  - Small group tax credit
  - Small employer grants for wellness programs
  - Early retirement reimbursement program for non-Medicare coverage
  - Temporary high-risk pool for individuals with pre-existing conditions

▸ It gives access to coverage to people who otherwise might not have had coverage – through State Exchanges
Focus on State Health Exchanges

➤ What are Exchanges
  • Individual Mandate
  • Health Exchanges
    – Who are they designed for
    – What will they provide
    – How are they funded
  • Premium Assistance Tax Credits
  • Employer Free-Rider Penalty

➤ What do Exchanges Mean to Institutions and their Employees
  • Premium Assistance Tax Credit
  • Value of Different Levels of Coverage
  • Value of Employer and of Union Selecting and Monitoring Benefits
  • Tax Consequences of Alternatives

➤ What do Institutions and Collective Bargaining Agents Need to Consider
2014—Individual Mandate

- Individuals must have *minimum essential coverage* (including employer-sponsored, nonfederal governmental plans) or pay a monthly penalty

- Individual penalty accounted for as an additional amount of federal tax owed
2014—Individual Mandate

- Penalty phases in from 2014 ($95 per adult per year or 1% of household annual income, whichever is higher) to 2016 ($695 per adult per year or 2.5% of household annual income, whichever is higher)
  - Total household penalty is capped
  - Fee for persons under 18 is one-half of the adult fee

- No penalty if:
  - Cost of coverage exceeds 8% (percentage may be increased based on premium increases) of household annual income
  - Coverage lapses of 3 months or less
  - Income is below income tax filing threshold
  - Native American
2014—State Health Insurance Exchanges
The New Marketplace

▶ 2014: State Health Insurance Exchanges will allow individuals and small employers to choose from a menu of insurance products

▶ 2017: States may allow large employers to buy through Exchanges

▶ States must establish or federal government will offer Exchange in that state

▶ Federal subsidies will be available to help people buy coverage
  - Families with incomes up to 400% of poverty level ($94,200 for family of 4 in 2013)
What Does an Exchange Do?

➤ Certify health plans as “qualified health plans”
➤ Operate a toll-free information line
➤ Maintain an Internet website that allows consumers to compare available plans
➤ Rate qualified health plans based on the HHS-developed rating system
➤ Make eligibility determinations for Medicaid, CHIP, etc.
➤ Certify exemption from the individual coverage mandate and certify whether “affordable” coverage is available to an individual
➤ Provide to each employer the name of each employee who ceases coverage under a qualified health plan during a plan year
➤ Establish the Navigator program where the state will award grants to entities for the provision of education and outreach regarding the qualified health plans available through the Exchange and facilitation of enrollment
Exchange Benefit Levels

**Platinum:** 90% of the full actuarial value

**Gold:** 80% of the full actuarial value

**Silver:** 70% of the full actuarial value

**Bronze:** benefits actuarially equivalent to 60% of the full actuarial value of the benefits provided under the plan

**Young Invincible** (catastrophic plan under 30)

Although the Affordable Care Act does not explicitly define actuarial value, the American Academy of Actuaries has stated that “the language in the law suggests that, for Affordable Care Act purposes, the measure reflects the average share of medical spending paid by the plan, rather than paid out of pocket by the consumer.” (See the American Academy of Actuaries' [July 2011 Actuarial Value Issue Brief](#).) Consequently, a platinum plan that has an actuarial value of 90 percent would be a plan that pays 90 percent of eligible medical expenses.
Qualified Health Plans on the Exchange Must . . .

➤ Offer “essential benefits”

➤ Offer at least one silver plan and one gold plan

➤ Charge the same premium whether a plan is sold through the Exchange or offered outside the Exchange

➤ Guaranteed issue and renewal

➤ Follow underwriting rules
  • Rates vary only by the following:
    – Individual v. family
    – Rating area
    – Age no more than 3 to 1
    – Tobacco use, no more than 1.5 to 1

➤ Have no more than four different types of family composition tiers: individuals, two-adult families, one-adult families with child or children, and all other families

➤ Risk corridors and risk adjustment
Who May Buy Exchange Coverage

SHOP Exchange

Qualified Employers

- Employer with 100 or fewer employees
- States may limit access to employers with 50 or fewer employees before January 1, 2016
- States may open access to employers with over 100 employees in 2017
Who May Buy Exchange Coverage

**Individual Exchange**

- Qualified individuals
  - Residents of the state where the Exchange is established
  - Non-incarcerated persons
  - Citizens and legal immigrants

- Non-documentated individuals cannot get subsidies or buy coverage on the Exchange
Premium Assistance Tax Credit Eligibility

**Individuals must:**

- Not be eligible for coverage through an employer-sponsored plan including a multiemployer plan
- Not be in Medicare, Medicaid, CHIP, TRICARE, the VA or any other coverage named by HHS
- Be a resident of the state where the Exchange is established
- Not be incarcerated at the time of enrollment
- Be a citizen or legally documented immigrant currently residing in the United States
- Have household income between 100% and 400% of FPL
- Not be claimed as a dependent on anyone’s tax return
Premium Assistance Tax Credit Calculation

The premium assistance tax credit is calculated based on:

▶ The premium cost of the second-lowest-cost silver plan offered through a state health benefit exchange, and

▶ The household income level of the applicant

<table>
<thead>
<tr>
<th>Household Income Level (% above FPL)</th>
<th>Maximum Premium as Percentage of Household Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 133%</td>
<td>2.0%</td>
</tr>
<tr>
<td>133 – 150%</td>
<td>3 – 4%</td>
</tr>
<tr>
<td>150 – 200%</td>
<td>4 – 6.3%</td>
</tr>
<tr>
<td>200 – 250%</td>
<td>6.3 – 8.05%</td>
</tr>
<tr>
<td>250 – 300%</td>
<td>8.05 – 9.5%</td>
</tr>
<tr>
<td>300 – 400%</td>
<td>9.5%</td>
</tr>
</tbody>
</table>
### Poverty Guidelines

#### 2013 POVERTY GUIDELINES FOR THE 48 CONTIGUOUS STATES AND THE DISTRICT OF COLUMBIA

<table>
<thead>
<tr>
<th>Persons in Family</th>
<th>100% FPL</th>
<th>133% FPL</th>
<th>400% FPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$11,490</td>
<td>$15,282</td>
<td>$45,960</td>
</tr>
<tr>
<td>2</td>
<td>$15,510</td>
<td>$20,628</td>
<td>$62,040</td>
</tr>
<tr>
<td>3</td>
<td>$19,530</td>
<td>$25,975</td>
<td>$78,120</td>
</tr>
<tr>
<td>4</td>
<td>$23,550</td>
<td>$31,322</td>
<td>$94,200</td>
</tr>
<tr>
<td>5</td>
<td>$27,570</td>
<td>$36,668</td>
<td>$110,280</td>
</tr>
<tr>
<td>6</td>
<td>$31,590</td>
<td>$42,015</td>
<td>$126,360</td>
</tr>
<tr>
<td>7</td>
<td>$35,610</td>
<td>$47,361</td>
<td>$142,440</td>
</tr>
<tr>
<td>8</td>
<td>$39,630</td>
<td>$52,708</td>
<td>$158,520</td>
</tr>
</tbody>
</table>
Purchasing Subsidized Exchange Coverage

Example

▶ Family of four purchases coverage on an Individual Exchange
▶ Modified Adjusted Gross Annual Income—$55,125
▶ Federal Poverty Level—250% (from slide 15)
▶ Family Share of Premium—8.05% of MAGAI (from slide 16)
▶ Family Monthly Premium—$370 ($55,125 x .0805 / 12)
## Sample Exchange Monthly Premiums using example from the prior slide

<table>
<thead>
<tr>
<th>Plan Tier</th>
<th>Total Monthly Premium</th>
<th>Federal Subsidy</th>
<th>Family Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Platinum</td>
<td>$1,800</td>
<td>$1,030</td>
<td>$770</td>
</tr>
<tr>
<td>Gold</td>
<td>$1,600</td>
<td>$1,030</td>
<td>$570</td>
</tr>
<tr>
<td>Silver (high)</td>
<td>$1,430</td>
<td>$1,030</td>
<td>$400</td>
</tr>
<tr>
<td>Silver (med)</td>
<td>$1,400</td>
<td>$1,030</td>
<td>$370</td>
</tr>
<tr>
<td>Silver (low)</td>
<td>$1,380</td>
<td>$1,030</td>
<td>$350</td>
</tr>
<tr>
<td>Bronze</td>
<td>$1,200</td>
<td>$1,030</td>
<td>$170</td>
</tr>
</tbody>
</table>
## Cost-Sharing Subsidy for Silver Plan Enrollees

<table>
<thead>
<tr>
<th>Household Income Level (FPL%)</th>
<th>Reduction in Out-of-Pocket Max</th>
<th>Extra Cost-sharing Reductions to Achieve Higher Actuarial Value of…</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%—150%</td>
<td>2/3 reduction</td>
<td>94%</td>
</tr>
<tr>
<td>151%—200%</td>
<td>2/3 reduction</td>
<td>87%</td>
</tr>
<tr>
<td>201%—250%</td>
<td>1/2 reduction</td>
<td>73%</td>
</tr>
<tr>
<td>251%—300%</td>
<td>1/2 reduction</td>
<td>None—stays at 70% (silver)</td>
</tr>
<tr>
<td>301%—400%</td>
<td>1/3 reduction</td>
<td>None—stays at 70% (silver)</td>
</tr>
</tbody>
</table>
Can Individuals with Employer-Sponsored Coverage Receive the Premium Assistance Tax Credit?

➢ Individuals who are eligible for coverage through their employers are generally ineligible for the premium assistance tax credits.

➢ However, employees may apply for the premium assistance tax credit when their employer-sponsored coverage is:
  • below 60% of actuarial value, or
  • the employee premiums exceed 9.5% of household annual income.
Employer Free-Rider Penalty

➢ Applies to employers with 50 or more full-time employees, including public sector employers and non-profit organizations
  • Must aggregate hours of part-time employees to create total number of full-time employees
  • Subtract first 30 workers when paying assessment

➢ If the employer does not offer coverage (and one 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 unaffordable or actuarial value is less than 60%
  • Penalty is $3,000 (annualized) times # of full-time employees getting tax credit in Exchange (penalty max)
Exploring the Impact of all these Rules

▷ Institutions can model the impact of the premium assistance tax credit and the employer free-rider penalty on its population.

▷ The model should include the impact of moving from a plan with high actuarial value to silver plan (70%).

▷ The model needs annual household income.

▷ The model should take plan member and plan sponsor income tax situation into account.
Notice/Reporting Requirements

**Some time in 2013, employers must provide notice to employees of the following:**

➤ The existence of the exchange
➤ Services offered by exchange
➤ How to enroll/request information
➤ If employer’s coverage is unaffordable, the fact that a tax subsidy may be available
➤ The fact that employer contribution may be lost (other than through free choice voucher) if employee enrolls in exchange
Notice/Reporting Requirements

Reporting beginning in 2014 regarding coverage options offered to all full-time employees:

- Employer information
- Whether minimum essential coverage is offered?
- The length of the waiting period
- The months during the year that it was offered
- Monthly premium for the lowest cost option in each enrollment category
- Employer’s share of the total allowed costs of benefits
- The employer’s premium under the option with the highest employer contribution
- The number of full-time employees each month
- Name, address, and TIN of each full-time employee during the year and the months during year covered under plan (report also provided to employees)
What **Must** Institutions Do Regarding Exchanges?

- Inform employees
- Measure the value of health plan offerings
- Test affordability

What **Should** Institutions Do Regarding Exchanges?

http://thekeep.eiu.edu/jcba/vol0/iss8/23
Think about What this Means to Institutions and their Employees

We believe this important decision has other dimensions in order to determine what is best for members. It all needs to start with education.

What customer service and support will the member receive?

What systems and support will the employer, health plan and union need?

How can labor and management work together for best solutions?

What are the financial consequences to employers and individuals?

How will the plan sponsor and plan members be educated on the potential impact?