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UBA PPACA Advisor

SCS Government Contracting Program

How the Healthcare Reform Act will Impact you and your Company

Key Parts of PPACA

Intended to increase number of Americans with health coverage

- ▶ Penalties for individuals without coverage
- ▶ Encouragement for employers to offer coverage
- ▶ Market reforms to improve access
- ▶ Expanded Medicaid eligibility

Individual Obligation

Obtain “minimum essential coverage” through an employer, an exchange, an individual policy or the government (e.g. Medicare and Medicaid) or pay a penalty

Individual Obligation (continued)

Penalty is:

▣ Greater of:

- \$95 or 1% of income in 2014
- \$325 or 2% of income in 2015
- \$695 or 2.5% of income in 2016
- Dollar amount is indexed for 2017 and later (% remains at 2.5%)

▣ Family maximum penalty of 3x individual

Individual Penalties (continued)

Penalty is paid as part of federal income tax

IRS has limited authority to enforce collection of the penalty

Supreme Court found this requirement constitutional under Congress' power to tax

Employer Encouragement

Small employers (100 or fewer employees in most states) may enroll in an exchange for small businesses

Tennessee –

- 50 or fewer for 2014 and 2015
- Under 100 beginning in 2016

Employer Encouragement (con.)

Employers are not required to offer medical coverage, but a penalty applies to employers with 50 or more employees who do not offer “minimum essential” coverage, or who offer coverage but the coverage does not provide “minimum value” or is not “affordable”

Employer Penalties

When counting employees for the 50 employee threshold, consider both:

- ▶ Full-time employees (30 or more hours/week)
- ▶ Part-time employees (“full-time equivalent employees”) on a pro-rata basis

Employer Penalties (continued)

Controlled group rules apply

Penalty is \$2,000/year for each full-time employee who is not offered minimum essential (basic) medical coverage if any employee receives a premium tax credit

- ▶ **Exclude the first 30 employees**
- ▶ **Penalty is calculated monthly**

Employer Penalties (continued)

Example: Acme Corp. does not offer medical coverage to its employees. Acme has 80 full-time employees in January. Acme's penalty for January is:

$80 - 30 \text{ employees} = 50 \text{ countable employees}$

$2000/12 = 166.67/\text{month}$

$50 \times 166.67 = 8,333.50 \text{ penalty}$

Employer Penalties (continued)

If the employer offers a benefit, but it is not “affordable” or it does not provide “minimum value” a penalty of \$3,000 is due for each full-time employee who receives a premium tax credit

- ▶ If the “no offer” penalty is smaller, pay that instead

Employer Penalties (continued)

Example: Smith Bros. has 60 employees. It offers coverage that is not affordable. 9 employees decline Smith's coverage and go into the exchange and 5 of those employees receive premium tax credits. Smith owes:

$$3000/12 = 250/\text{month} \times 5 = \$1,250$$

Employer Penalties (continued)

Coverage is not “affordable” if the employee’s cost is more than 9.5% of household income

- ▶ A safe harbor of 9.5% of W-2 income for self coverage may be used by employers in 2014 (and perhaps later years) when determining if the employer penalty applies

Employer Penalties (continued)

Coverage provides “minimum value” if the actuarial value of the coverage is 60% or better

- ▶ 60% considers employee’s cost share (deductible, co-pays, coinsurance)
- ▶ 60% does not consider premium costs

All exchange plans will provide “minimum value”

Employer Penalties (continued)

Large employer plans do not have to provide the 10 “essential health benefits,” but must provide minimum value coverage

- ▶ Safe harbor plan designs expected to be provided by government
- ▶ Likely will need to cover hospital, emergency, physician, lab and imaging and prescription drug costs

Employer Considerations

Options include:

- ▣ Maintain current program (e.g., if need for retention, recruitment)
- ▣ Reduce benefits to minimum value
- ▣ Restructure contribution levels
 - Base contribution on pay?

Employer Considerations (continued)

Discontinue coverage and rely on the exchanges

- ▶ Will that cause employees to demand additional, less tax-advantaged compensation?
- ▶ Would this strategy still be viable if the penalty amount increased?

Exchanges

Intended to make it simpler for individuals and small employers to purchase health insurance

Exchange will not provide insurance

Exchanges (continued)

Exchange is somewhat like Orbitz or Expedia

- ▶ Will provide information on plan benefits and costs to make comparing options easier
- ▶ Will oversee the plans health insurers offer

Exchanges (continued)

Plans must meet “cost sharing” requirements and provide “essential health benefits”

- ▶ Deductible may not exceed \$2,000 for single or \$4,000 for family coverage
- ▶ Out-of-pocket cannot exceed \$6,250 for single or \$12,500 for family coverage

Exchanges (continued)

- ▶ Essential health benefits are:
 - Ambulatory (outpatient) care
 - Emergency services
 - Hospitalization
 - Maternity and newborn care
 - Mental health and substance abuse
 - Prescription drugs
 - Rehabilitative and habilitative services
 - Laboratory services

Exchanges (continued)

- Preventive and wellness care, including chronic disease management
- Pediatric care

Coverage to be available at several actuarial levels:

- ▶ Platinum – cover 90% of costs
- ▶ Gold – cover 80% of costs
- ▶ Silver – cover 70% of costs
- ▶ Bronze – cover 60% of costs

Exchanges (continued)

Exchanges also responsible for:

- ▶ Providing website, navigators and other enrollment assistance to individuals
- ▶ Determining eligibility for premium tax credits

Exchanges (continued)

Each state will have an exchange

- ▶ If state chooses not to create an exchange, or is not ready by 2014, federal government will run the exchange on behalf of the state
- ▶ To date, fewer than 20 states are on target to create an exchange
- ▶ Will be multi-state exchanges
 - Few details so far

Exchanges (continued)

A person may enroll in an exchange even if they have access to employer-provided coverage

Annual open enrollment each fall for a January 1 coverage date

Special enrollment required mid-year with life events

Exchanges (continued)

Individual is eligible for a premium tax credit if these conditions are met:

- ▣ Income is between 100% and 400% of Federal Poverty Line

- For 2012, FPL for:

- Single person is \$11,170

- Family of four is \$23,050

- Amount of credit reduces as income approaches 400% of FPL

Exchanges (continued)

- ▶ Have purchased coverage through the exchange
- ▶ Do not have access to employer provided coverage that is affordable and provides minimum value
- ▶ Not eligible for Medicaid

Exchanges (continued)

Exchanges will also provide services to those covered by Medicaid

Supreme Court ruled that Congress exceeded its authority when it tried to withhold all Medicaid funding from states that did not expand Medicaid eligibility, but...

Exchanges (continued)

Congress may withhold additional Medicaid funding from states that do not expand Medicaid eligibility

Several states have said they will not expand Medicaid eligibility

- ▶ Hospitals are lobbying to reverse these decisions
- ▶ Could increase employers' obligations

Exchanges (continued)

Small Business Health Options Program (SHOP) exchange to be provided for small employers

- ▶ Employer selects coverage level (e.g. a Silver plan)
- ▶ Each employee selects own plan within the selected coverage level
- ▶ States may allow additional options

Exchanges (continued)

- ▶ Exchange provides consolidated bill to employer
- ▶ Employer must offer exchange coverage to all full-time employees
- ▶ No specific employer contribution required

Other 2014 Obligations

Plan changes:

- ▶ No annual limits on essential health benefits
- ▶ No pre-existing condition limitations for anyone
- ▶ Eligibility waiting periods cannot exceed 90 days

Other 2014 Obligations

Required reporting to federal government and participants

- ▶ **Very few details available yet**
 - Will likely need to report on whether affordable, minimum value coverage was offered and if it was elected, waiting period & cost
- ▶ **First reports likely due in 2015 based on 2014 coverage**

Other 2014 Changes

Insured plans in exchanges and individual and small employer markets must follow:

- ▶ Guarantee issue and renewal
- ▶ Modified community rating
 - Age (maximum of 3:1)
 - Tobacco use (maximum of 1.5:1)
 - Family composition
 - Geographic region

Other 2014 Changes

**Maximum wellness incentive
increased to 30% of cost of
coverage**

Pending Obligations

Nondiscrimination

- ▶ Effective date delayed for insured plans
- ▶ Pre-dates PPACA for self-funded plans

Automatic enrollment

- ▶ Will apply if over 200 employees
- ▶ Effective sometime after 2014

2018 Obligation

Cadillac tax

- ▶ 2018 effective date
- ▶ 40% non-deductible excise tax if plan too generous
 - Total cost exceeds \$10,200 for single coverage and \$27,500 for family

Upcoming Employer Obligations

2012

- ▶ Distribute medical loss ratio rebate, if one was received
- ▶ Distribute Summaries of Benefits and Coverage
 - Insurer to create, employer to distribute for insured plans
 - Employer to create and distribute for self-funded plans (TPA can assist)

Upcoming Employer Obligations

2013:

- ▣ Health FSA contribution capped at \$2,500
 - Communicate with open enrollment materials
 - Amend plan by 12/31/2014

Upcoming Employer Obligations

2013:

- ▣ W-2 reporting of cost of health benefits
 - Not required if issued < 250 W-2's in 2011
 - Include both employer and employee contributions
 - Informational only (does not create a tax liability)

Upcoming Employer Obligations

2013:

- ▶ Increased FICA withholding on employees earning \$200,000+
 - Additional 0.9% on employee's share only
- ▶ Notice of exchange availability
 - Few details yet
 - March 1, 2013 effective date may be delayed

Upcoming Employer Obligations

2013:

▣ Patient Centered Research Fee

- Generally, \$1 per covered life for 2012 and \$2 per covered life (indexed) for next 6 years
- First payment for most due July 31, 2013
- Insurer files and pays for insured plans; employer files and pays for self-funded plans

Already Effective

Plan changes:

- ▶ No lifetime maximums on essential health benefits
- ▶ Restrictions on annual limits on essential benefits
- ▶ No pre-existing condition limitations on children
- ▶ Coverage of dependent children to age 26

Already Effective

Plan changes:

- ▶ Expanded claims and appeals rules+
- ▶ Required direct access to pediatricians, ob-gyns+
- ▶ Required levels of coverage for emergency care+
- ▶ Cost-sharing limits+

+ Does not apply to grandfathered plans

Already Effective

Plan changes:

- ▶ Required first dollar coverage for preventive care+
 - Required coverage for various women's services, including contraception, has been added
- ▶ Generally may not retroactively rescind coverage

Already Effective

May not reimburse over-the-counter drugs without a prescription (FSA, HSA, HRA)

Already Effective

Grandfathered Plans:

- ▶ Made extremely limited plan changes since 3/23/2010
- ▶ Made limited cost sharing changes since 3/23/2010
- ▶ Must provide notice to participants
- ▶ Must maintain records to prove only minimal, allowable changes have been made

Questions???

Thank You.

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