

Affordable Care Act Issues and Impact

Presentation to the Association of Government Accountants

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Presentation Outline

- Affordable Care Act (ACA) broad strokes
- Practical issues facing employers and health plan administrators
- ACA Impact



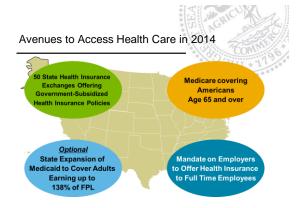
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What Does the ACA Do?

- Aims to extend access to health insurance coverage to all citizens
- Imposes mandates and reporting requirements on insurers and employers sponsoring health benefits
- Expands Medicaid eligibility (optional)
- Expands certain Medicare benefits
- Creates new virtual marketplaces to buy coverage (the Exchanges)

Big Picture of the ACA- All Goes Together

- Individual mandate
- Employer pay or play
- Tax credits for small employers .
- Insurance market regulation
- Insurance exchanges .
- Premium subsidies
- Medicaid expansion



Health Care Reform—Paradigm Shift for Employers and Employees

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Employer Plan	
State/federal Exchanges	
Medicaid	

Opt-Out Self Insure

 If offered, generally the best choice for employees who do not receive a federal subsidy in the exchanges Insurance plan familiar to most employees

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- · Employees with low family incomes may receive better
- benefits at a lower cost in a state exchange These individuals can only receive federal subsidies if employer does not offer an affordable plan
- May be available to more employees in states that choose to expand Medicaid coverage Enrollees receive nearly full coverage, although provider .
- access is limited
- Employees may opt-out for many reasons including a . spouse with a better/cheaper plan, TriCare coverage, or simply not wanting to own health insurance

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Implementation Challenges

States	New administrative and financing responsibilities Creation/definition of Essential Health Benefits Creating Exchanges (state/dedral/partner) Enforcing new regulations on insurers and employers Medicaid expansion, if elected Integrating Medicaid with the Exchanges Increasing infrastructure and capacity, including primary care		
Consumers	Affordability of premiums and cost-sharing Scope of benefits, adequacy of coverage (EHB's) Understanding new rules and options, enrolling in coverage Access to care Enforcement of individual mandate		
Providers Understanding and meeting new requirements Increased demand Possible payment reductions (though increases for Reorganizing how care is delivered			
Federal Government Regulatory burden and capacity Oversight requirements			

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Affordable	e Care A	ct — Co	mpliance	Timeline	
2011 Plan Year	2011	2012	2013	2014	2018
Lifetime dollar limits on	Over-the-Counter	Distribution of Summary	 Notice to Inform 	 Individual Mandate to 	Excise Tax on
Essential Health Benefits (EHB)	Medicines Not	of Benefits and Coverage	Employees of Coverage	Purchase Insurance or Pay	High-Cost Coverage
prohibited	Reimbursable Under	to Participants (Ongoing)	Options in Exchange	Penalty	2
Preexisting Condition	Health FSA, HRAs, or from		 Limit of Health Care FSA 	 State insurance Exchanges 	
Exclusions Prohibited for	HSAs Without a	Effectiveness) Fee	Contributions to \$2,500	 Employer Responsibility to 	
Children under 19	Prescription, Escept	 Quality of Care Report 	(Indexed)	Provide Attordable Minimum	
Overly restrictive annual dollar	Insulin	(delayed)	 Addition of women's 	Essential Health Coverage	
limits on EHS prohibited	 HSA Excise Tax Increase 	 Medical Loss Ratio 	preventive health	 Preexisting Conditions 	
Extension of Adult Child	Public Long-Term Care	rebates (insured plans	requirements to No Cost	Exclusions Prohibited	
Coverage to Age 26	Option (CLASS Act) -No	only)	Sharing and Coverage for	Annual Dollar Limits on EHB Prohibited	
Prohibition on Rescissions No Cost Sharing and Coverage	Longer Supported by HMS Medicare Part D Discounts	 Employer Reporting of Health Coverage on Form 	Certain In-Network	Prohibited	
Inc Centrin In Network	for Certain Drugs in	W-2 (due January 21.	Services	(DELAYED)	
Preventive Health Services	"Donut Hole"	W-2 (due January 31, 2013)	Elimination of Deduction	Limit of 90-Day Walting Period	
Effective Appeals Process	-Donet Hole -	2013)	 Esmination or Deduction for Expenses Allocable to 	for Coverage	
Consumeripatient protections			Retiree Drug Subsidy	Employer Reporting of Health	
Nondiactimination			(RDS)	Insurance Information to	
requirements on fully insured			()	Government and Participants	
plana (DELAYED)				Increased Cap on Rewards for	
Certain Retiree Medical Claims				Participation in Wellness	
Reimbursable (ERRP)				Program	
Retiree Drug Plan FAS Liability				· Cost-sharing limits for all	
Recognition				group health plans, not just	
Annine to full time oppoints	is (e.g., 30 hours per week) ar	in the second	a alfanishin and cateling	HDHPs/HSA (deductibles and	
a certain actuarial value to a		ro wa require coverage stat i	a annormality and balloting	OOP maximum)	
				Coverage of routine patient	
Employer Responsibility noted in	N RED above			costs for participants in	
				approved clinical trials	
				 Transitional reinsurance 	
				contributions	



Plan Compliance Requirements

- Extension of adult child coverage to age 26
- Summary of Benefits & Coverage communication
- 100% coverage for preventive services
- W2 reporting of the value of coverage
- Elimination of pre-ex for children
- Final appeals moved to Independent Review
 Organization
- Marketplace notification
- Women's preventive services
- Comparative Effectiveness Research Fee



Plan Compliance Requirements

- Employer mandate to provide affordable minimum essential health coverage
- · Preexisting conditions exclusions prohibited
- · No annual dollar limits on essential health benefits
- · Limit of 90-day waiting period for coverage
- Increased cap on rewards for participation in wellness program
- Cost-sharing limits for all group health plans, not just HDHPs/HSA (deductibles and OOP maximum)
- Transitional reinsurance fee



Employer Mandate (a.k.a. Shared Responsibility)

- Requires large employers to offer affordable health coverage that provides minimum actuarial value and minimum essential coverage to at least 95% of their fulltime employees and their eligible dependents
- · What's a "large" employer
- What is "affordable coverage?"
- · What is "minimum actuarial value?"
- What is "minimum essential coverage"?
- · Who is a "full-time employee"?

Health Care Reform Impact – Contractor and Part-Time Workers

- Individuals have a responsibility to maintain minimal essential coverage or pay a penalty that is generally based on taxable income
- Use of any employee for an average of 30 hours a week or more could cause the employer to incur the expense of providing health insurance or being assessed an IRS penalty
- Need to know how many contractors and PT employees are considered FT employees under IRS guidelines; ensure proper procedures for managing contractors

Variable Hour and Seasonal Employees

- "Look-back" Measurement Period
- · Period over which employer tracks employee's hours of service
- · Cannot be less than three months or more than twelve months in duration
- Standard measurement period for ongoing employees uniform period set by employer
- Administrative Period
- · Calculations, communications, enrollment
- Optional (up to 90 days in duration)
 Begins immediately after end of standard measurement period
 Ends immediately before associated stability period
- Stability Period
- Period for which employer must offer health care coverage to Full-Time Employee to avoid No Coverage Penalty or Inadequate Coverage Penalty Stability period must be at least as long as measurement period, but not less than six months

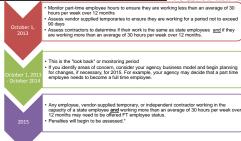


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State of Tennessee example



*Employer penalties delayed

Employer Mandate & Penalties delayed

"No Coverage Penalty"

- Employer does not offer Minimum Essential Coverage ("MEC") to all eligible FTEs and eligible dependents and at least one FTE enrolls in Exchange and receives Federal subsidy
 - Penalty equals \$2,000 per year for all FTEs (minus first 30 FTEs), regardless of whether the FTE elected employer-provided health care coverage
- Applies if less than 95% of FTEs (and their eligible dependents) are offered coverage OR

"Inadequate Coverage Penalty"

- Employer offers MEC to FTEs but coverage is either
 - "Unaffordable," or
 - Does not provide "minimum actuarial value" (State plans exceed this threshold)
 - Penalty equals \$3,000 per year per each FTE who enrolls in an Exchange insurance product and receives a Federal subsidy Not more than the No Coverage Penalty
 - . Also applies to the excluded 5% above

Key Administrative Employer Requirements

- W-2 reporting
- Summary of Benefits and Coverage (SBC)
- Employer Exchange-related notices
- Employee protection
- · Reporting to IRS starting in 2015
- · Automatic enrollment (not yet issued)



Health Insurance Marketplace

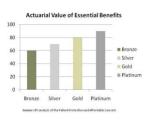
- The Marketplace aims to offer "one-stop shopping" to find and compare private health insurance options
- Initial open enrollment for health insurance coverage through the Marketplace October 1, 2013 through March 31, 2014
- Thereafter, there will be an annual enrollment period from October 15 through December 7
- In Tennessee individuals will use the Healthcare.gov website to apply for coverage, compare plans and enroll

Core Functions of the Marketplace

- Regulated internet marketplace
- Consumer assistance
- Plan management
- Eligibility
- Enrollment
- · Financial management



Metal Levels





• A plan with an actuarial value of 70% (referred to as a "silver" plan)

•For a standard population, the plan will pay 70% of their health care expenses, while the enrollees will pay 30% through a combination of deductibles, copays, & coinsurance



Overview of Individual Mandate

Requires individuals to maintain "minimum essential coverage" for themselves and their dependents each month or pay a penalty

Year	Penalty (greater of)
2014	\$95/adult (capped at \$285 per family) or 1% of taxable income
2015	\$325/adult (capped at \$975) or 2% of taxable income
2016	\$695/adult (capped at \$2,085) or 2.5% of taxable income
2017 & Beyond	\$695(indexed for COLA)/adult or 2.5% of taxable income

Individual Coverage - Premium Assistance

Individuals must:

- Not be eligible for coverage through an employersponsored 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
- Have household income between 100% and 400% of the FPL
- · Not be claimed as a dependent on anyone's tax return

Carton Contractor

Retirees

- Exchanges will not offer Medicare supplemental plans but early retirees can purchase coverage on the Exchanges
- Age rating limitations may make Exchange coverage more attractive compared to current options in the individual market
- Employer shared responsibility penalty is not triggered if retirees obtain premium assistance tax credits in the Exchanges
- Retirees may decline retiree coverage from their employers and still qualify for a tax credit in an Exchange

Overview of Mandates - Insurance Companies

- Premium tax (~1.5% 3.5%)
- Comparative effectiveness fees and reinsurance fees
- Same rate to individuals as through the Exchange, if it offers coverage inside and outside the Exchange
- No pre-existing conditions exclusions
- Rates based on coverage tier, geography, age, tobacco use
- Range of rates from youngest to oldest cannot exceed a factor of 3
- · Guarantee policy renewal



So What's Different?

Coverage still operates through a commercial marketplace (with exception of Medicaid) BUT...

- New and more stringent requirements
- · Federal government is a player in every state
- Large employer's traditional role in providing "hire to grave" health benefits is changing
- Employers may need to make significant changes to health plan eligibility and or workforce composition

Impact to Plan Sponsors

- · Understand the requirements
- · Monitor the environment
- Evaluate your organization
- Review workforce composition
- · Know the cost
- · Evaluate the options





What Will Employers do in the Long Term?

- No complete exit from funding employers can either sponsor benefits directly or fund the system through some form of 'fine', aka, a tax
- Defined contribution only controls costs if the annual increase of the employer share is tied to CPI vs. health care inflation
- Argument that employers will exit is less likely than it sounds
- Even with exchanges health care increases will be borne by employers



Key Indicators to Monitor

- · How quickly will the exchanges become highly functional?
- · How will the public accept insurance exchanges?
- · What will the government do with the penalties?
- · How big an impact with the 2018 "Cadillac tax" have?
- · Will health care cost increases slow down?
- · What happens to the economy and labor markets?
- What will "the competition" do?



Future Implications

More employers will adopt a total compensation perspective:

- How do benefits "fit" within the employer's vision of the ideal culture?
- What is the responsibility to provide and/or subsidize health insurance benefits?
- What role to health benefits play in attracting and retaining talent?
- How are benefits perceived by employees?

