

# Healthcare Reform: What can we Expect?



L O C K T O N C O M P A N I E S

# Agenda

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- ❖ A Quick refresher
- ❖ The business strategy of HCR
- ❖ Questions

## Recent Developments

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❖ **Crunch Time: Health Reform on the Eve of Implementation**

❖ **Regulatory Crush**



# The Beginning

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## ❖ Issues and Challenges

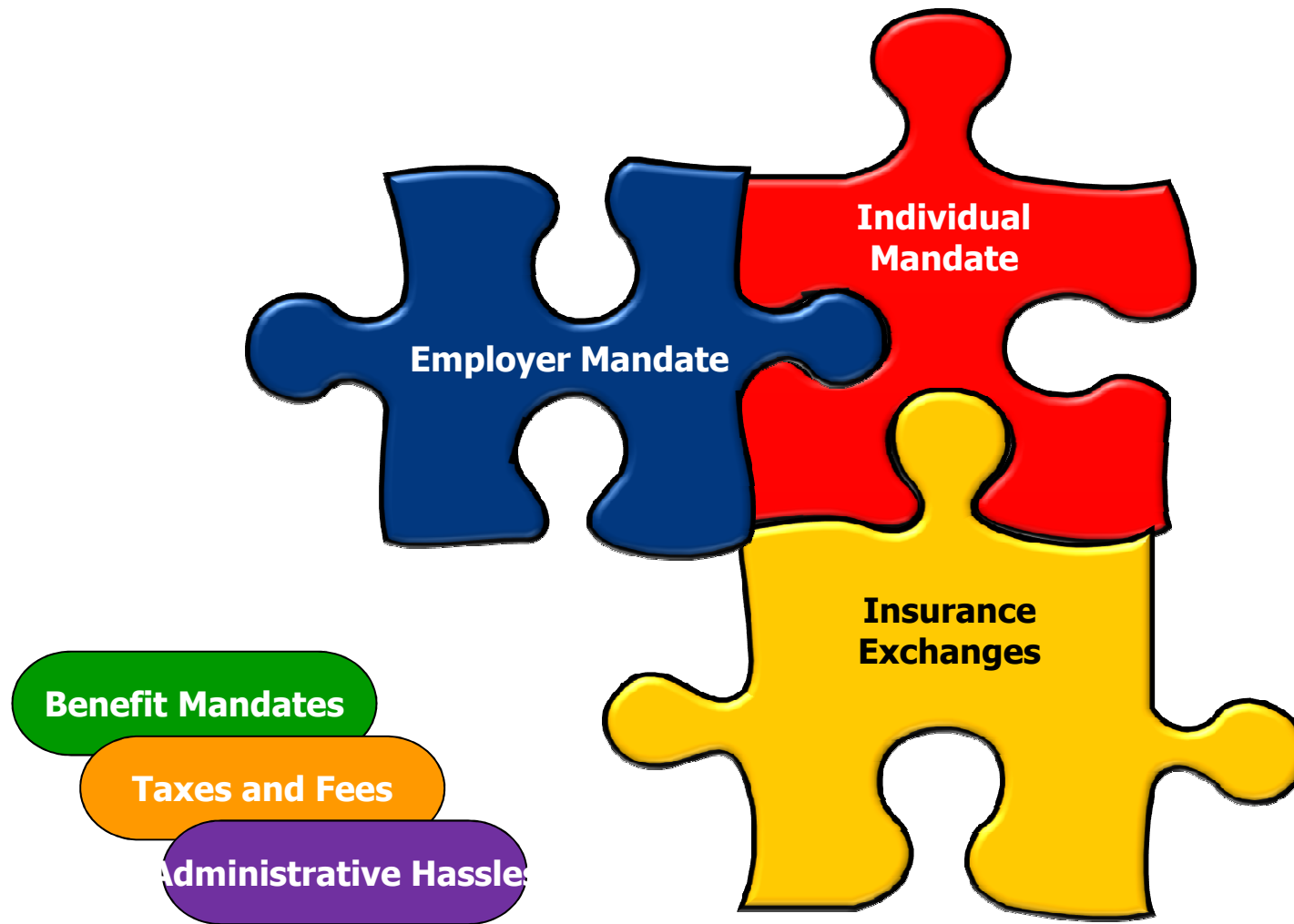
- Access to care and insurance
- Cost shifting
- Uncoordinated care, “perverse” payment models
- Patient divorce from any sense as to the cost of the transaction

## ❖ Widespread Misunderstanding about Health Reform

- C-Suites: Many remain uninformed
- Rank and file: “When does my free health care begin?”
- April poll:
  - ❖ Nearly half of all Americans either (i) don’t know there is a health reform law, or (ii) believe it has been repealed
  - ❖ More than half of all Americans have no idea how the law will or might impact them...
  - ❖ Yet a significant minority of Americans are in favor of the health reform law
  - ❖ Majority of those polled are now against the law, but significant portion of these are opposed to the law because it “doesn’t go far enough”

# Health Reform – The Key Pieces of the Puzzle

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## The Individual Mandate







### ❖ It Starts Here: The Individual Mandate



# Individual Mandate

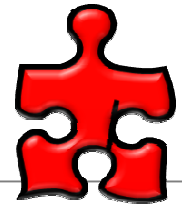


## ❖ It Starts Here: The Individual Mandate

- The Cornerstone of the ACA
- The 800-pound gorilla: cost shifting
- Law requires insurers to:
  - Issue policies to all applicants
  - Cover their pre-existing conditions
  - Effectively limit risk/cost ratios to 3:1
  - Return premium dollars to policyholders in years where claims are less than projected
- This only works if you get everyone in the boat! “Let’s get everybody insured!”
- But what’s the obligation? What *kind* of coverage satisfies the individual mandate?



# Individual Mandate



“Minimum Essential Coverage” is a relatively low bar. Can be met through:

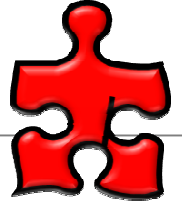
- ❖ Medicare
- ❖ Medicaid
- ❖ Some limited medical plans
- ❖ CHIP
- ❖ TRICARE
- ❖ VA coverage
- ❖ **Any public exchange-based plan, OR**
- ❖ **Any employer’s medical plan**

## Tax/penalty for no coverage

Individual Mandate Tax/Penalty:  
The Greater of A or B

Tax Year	A	B		
	% of income	Per Adult	Per Child	Family Cap
2014	1%	\$95	\$47.50	\$285
2015	2%	\$325	\$162.50	\$975
2016	2.5%	\$695	\$347.50	\$2,085



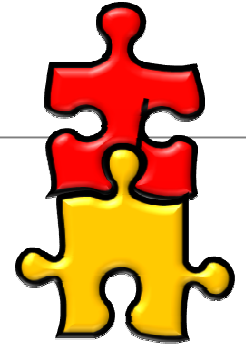


- ❖ Consequences of the Individual Mandate
  - What do your employees know?
  - The law needs everyone to sign up for insurance...but do you?
    - ❖ Increased employee enrollment, particularly over time
    - ❖ Increased dependent enrollment
      - ✦ Spouses and children to age 26
    - ❖ Plan modification?
      - ✦ Benefits, spousal coordination, wellness?
  - Employees will “window shop”...more on this later
  - Communicate, communicate, communicate



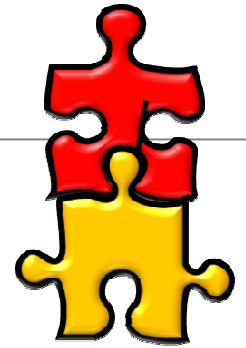
## The Insurance Exchanges





- ❖ Public Insurance Exchanges
  - Online purchasing portals...
  - ...for people without access to adequate and affordable employer-based coverage
  - Exchanges connect the uninsured with insurance coverage, if they want it
  - Coverage is NOT supplied by the government
    - ❖ Unless person is eligible for Medicaid or Medicare
    - ❖ Insurance policies are issued by private insurance companies who wish to play in the exchanges

# Insurance Exchanges



## ❖ Public Insurance Exchanges

### ➤ Subsidies

- ❖ Advance tax credits
- ❖ Cost-sharing reductions

### ➤ Not available if:

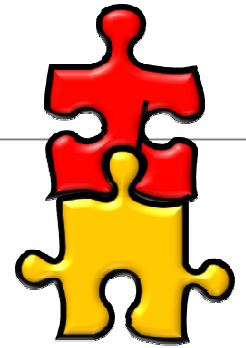
- ❖ Household income is below 100% of FPL, or above 400% of FPL...or
- ❖ Have an offer of employer coverage that satisfies "minimum value" and "affordability" tests...or
- ❖ Employee is *enrolled* in any employer-based plan





# Insurance Exchanges

- ❖ Exchange-based individual coverage will be expensive
  - Guaranteed issue
  - No pre-existing condition restriction
  - No minimum participation/employer contribution
  - Medical Loss Ratio requirements
  - Compression of rating bands to 3:1 or less
  - Fees to sell products in the Exchanges
  - Offer all “Essential Health Benefits” in small group and individual markets
  - Appeals involving medical necessity/ appropriateness are outsourced to third-parties
  - Taxes and fees on insurers and employer-based health plans - \$100 billion over next several years





# Insurance Exchanges

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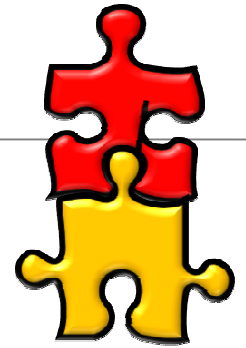
## ❖ Public Insurance Exchanges

- How many?
- Progress
- Massive expenditures
  - ❖ Covered California: \$910m in grants, \$350m in contracts
    - ✦ Plans for 20,000 enrollers
  - ❖ New York: \$350m in grants
  - ❖ \$3.5b in grants so far...feds say they'll need at least twice the budgeted amount

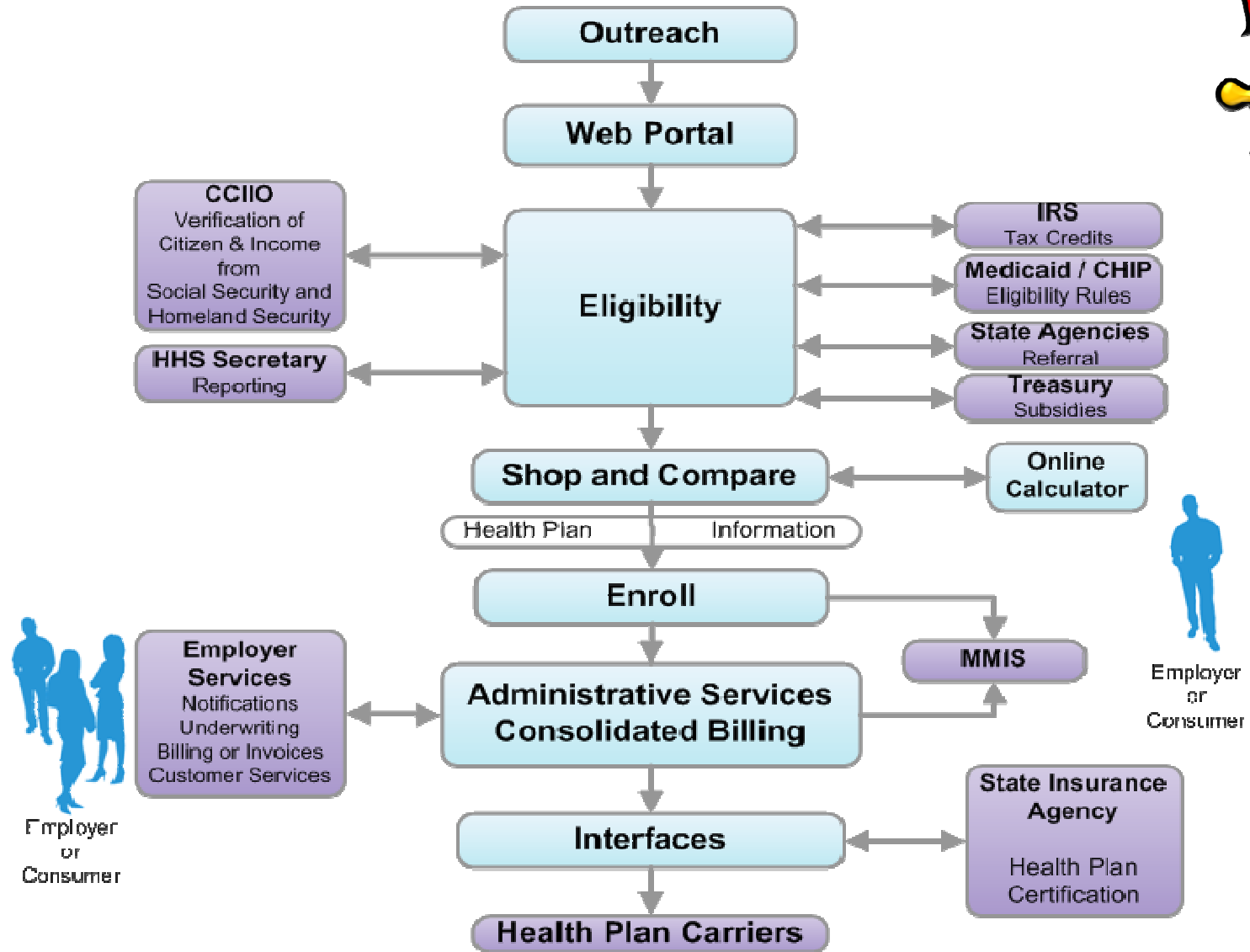
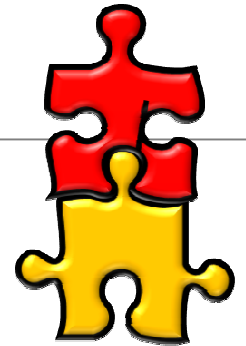
# Insurance Exchanges

## ❖ Public Insurance Exchanges

- ▶ Massive data assimilation



# Insurance Exchanges



## The End of the Beginning...or Beginning of the End?

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### ❖ So...what will happen?

- If exchanges won't be ready, we can't have an individual mandate (or at least, not an enforceable one)
- If we're not going to have an individual mandate, there's no sense in an employer mandate
- If we DO have an individual and employer mandate for 2014, it'll be like...



## The Employer Mandate



# The Employer Mandate



## ► Play or pay Delay

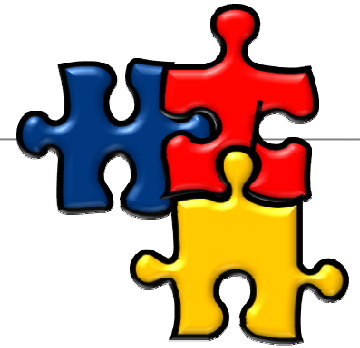
- ❖ On July 2<sup>nd</sup> the feds delayed until 2015 the obligation on insurers and employers to report coverage supplied to employees and to report the details on the aspects of the coverage offering, such as actuarial value and price
- ❖ Without this information, the feds won't be able to tell which employers are complying with the mandate in 2014 and which are not, so the feds suspended any "play or pay" penalties until 2015
- ❖ This means employers who don't "play" in 2014 won't be penalized...essentially deferring the play or pay mandate until 2015

## ► What do you do now?

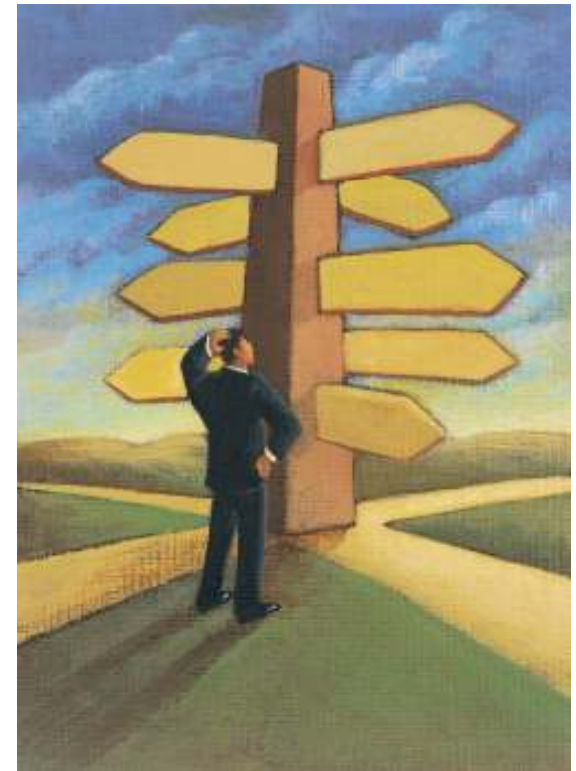
- ❖ For most employers, it's a non-event (they're already compliant with "play or pay"); no need to re-tool financial modeling
- ❖ For others – restaurants, retail, hospitality, staffing, argibusiness, entertainment and others – this is a huge relief



## The Employer Mandate



- ❖ The Employer Mandate in a nutshell...
  - Play...or pay?
  - If pay, how much must you pay (and how much must your *employees* pay)
  - If play, how well must you play?



# The Employer Mandate

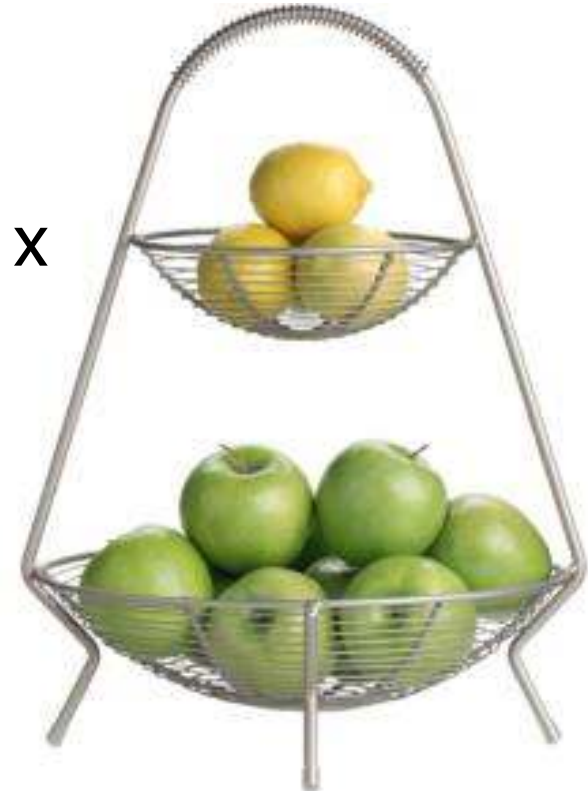


## ❖ Tier 1

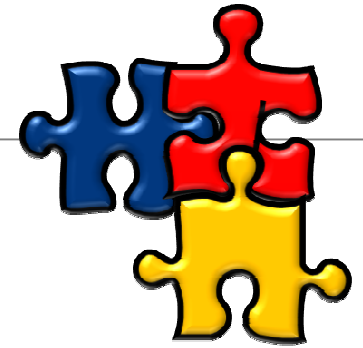
- Offer 95% of full-time employees *and children...*
- ...“minimum essential coverage”

OR

- Pay \$2k (non-deductible) per year x all FTEs (-30)



# The Employer Mandate



## ❖ If “Playing,” Must Deal with Tier 2

➤ If offer coverage, e’ee-only level should be:

- ❖ “Minimum value” and
- ❖ “Affordable” (3 safe harbors)

OR

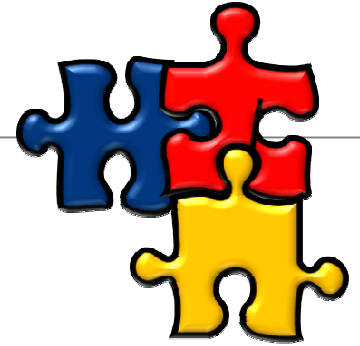
➤ Risk a highly contingent penalty

- ❖ FTE want coverage?
- ❖ Not getting it elsewhere?
- ❖ Go to exchange?
- ❖ Not Medicaid/Medicare eligible
- ❖ Qualify for subsidies



# The Employer Mandate

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## ❖ Identifying and Dealing with FTEs

### ➤ Step 1: Identify the FTEs

- ❖ Average 30+ hours per week

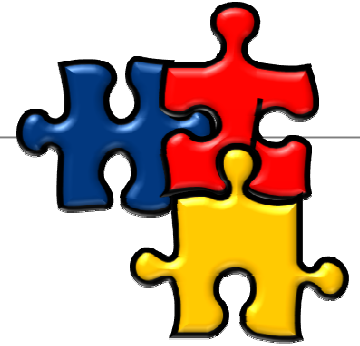
- ❖ Count paid hours

- ❖ Hard-to-count employees

- ★ Credit 8 hours for each day e'ee works at least 1, or 40 hours for each week e'ee works at least 1 hour

# The Employer Mandate

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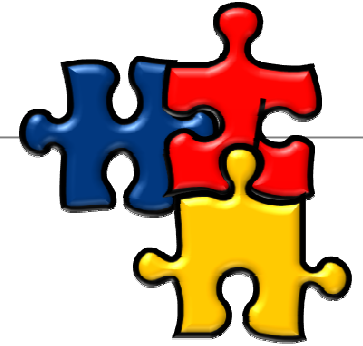
## ❖ Identifying and Dealing with FTEs

### ➤ Step 1: Identify the FTEs

- ❖ Categorize employees as regular full-time, variable hour or seasonal
- ❖ Regular full-time
  - ✦ Make coverage offer before end of 3d full calendar month, or risk penalties
- ❖ Seasonal: Free pass (at least for 2014), but no definition; “be reasonable”

# The Employer Mandate

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## ❖ Identifying and Dealing with FTEs

### ➤ Step 1: Identify the FTEs

- ❖ Categorize employees as regular full-time, variable hour or seasonal
- ❖ Variable hour:
  - ★ Initial measurement, administrative and stability periods
  - ★ Standard measurement, administrative and stability periods



# The Employer Mandate

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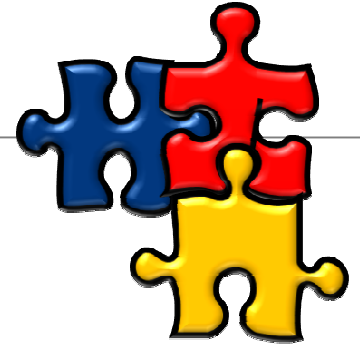


## ❖ The Employer Mandate

- Step 3: Making the offer of “minimum value” and “affordable” coverage
  - ❖ Satisfies Tier 2 of the employer mandate
- “Minimum Value”
  - ❖ 60% actuarial value; feds have issued MV calculator
  - ❖ E’ee coverage only
  - ❖ E’er HSA contributions count; new HRA contributions count if limited to cost-sharing
  - ❖ After 2014, ignore wellness incentives unless for tobacco cessation

# The Employer Mandate

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## ❖ The Employer Mandate

### ➤ “Affordable”

- ❖ 9.5% of household income
- ❖ E’ee coverage only
- ❖ 3 safe harbors: W-2, rate of pay, and poverty level
- ❖ E’er HSA contributions don’t count; new HRA contributions count if may be used to pay premiums
- ❖ After 2014, ignore wellness incentives unless for tobacco cessation
  - ✦ Complicated rules related to wellness incentives and “minimum value” and “affordability”



## Taxes, Fees, Mandates and Hassles



# Taxes, Fees, Mandates and Hassles

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## ❖ Benefit Mandates, Taxes and Fees

### ➤ Benefit Mandates

- ❖ Dollar maximums on EHBs
- ❖ Coverage to age 26
- ❖ Cost-free preventive care
- ❖ Nondiscrimination
- ❖ Automatic enrollment
- ❖ 90-day max waiting period
- ❖ Limits on health FSAs



# Taxes, Fees, Mandates and Hassles

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## ❖ Benefit Mandates, Taxes and Fees

### ➤ Taxes and Fees

- ❖ PCORI: Due 7/31 for most plans
  - ✦ Recently release form and instructions
  - ✦ Insurer calculates and pays for insured plans; self-insured plan sponsors have several options for counting belly buttons
- ❖ Transitional Reinsurance - \$14b → 0
- ❖ Excise taxes on insurers - \$8b → \$14b+
- ❖ Excise taxes on Rx manufacturers and medical device manufacturers
- ❖ Additional payroll/cap gain taxes
- ❖ States jump on the bandwagon





# Taxes, Fees, Mandates and Hassles

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## ❖ The Coming Data Storm

- ▶ If offer health insurance (even if not in the “play or pay boat”) must report:
  - ❖ Name, address and EIN
  - ❖ Certification re coverage offers to FTEs
  - ❖ Number of FTEs for each month of the calendar year
  - ❖ Name, address and SSN/TIN for each FTE employed during the calendar year
  - ❖ Number of months during which the employee (and any dependents) were covered





# Taxes, Fees, Mandates and Hassles

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## ❖ The Coming Data Storm

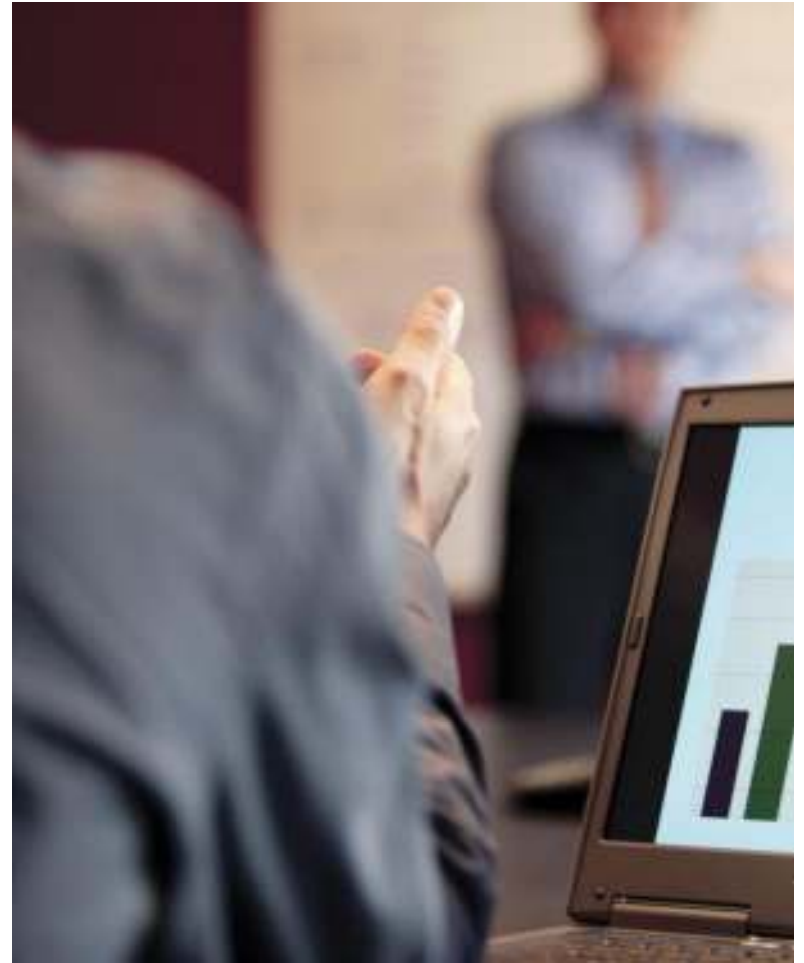
- ▶ If in the “play or pay boat,” must report:
  - ❖ Waiting period
  - ❖ Months for which coverage was available
  - ❖ The monthly premium for the lowest cost option in each tier
  - ❖ The option for which the employer pays the largest portion, and the portion of the cost paid by the employer for each option
- ▶ Tracking Hours for Part-Time, Variable Hour Employees
- ▶ Reporting Premium Costs on W-2
  - ❖ If filed at least 250 W-2s in prior year



# Taxes, Fees, Mandates and Hassles

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- ❖ Notice regarding public insurance exchanges
  - Due by October 1 for existing employees; within 14 days of hire for new employees
  - Must provide automatically and free of charge
  - May be provided electronically in accordance with DOL standards
  - Content:
    - ❖ Information about the individual's coverage options
    - ❖ Information about public health insurance exchanges
    - ❖ Notice that subsidies might be available in an exchange, but foregoing employer coverage means the employee foregoes the employer's nontaxable subsidy
    - ❖ Other information about employer's coverage



# THE BUSINESS STRATEGY OF HEALTH REFORM



L O C K T O N C O M P A N I E S

# Three Key Items

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- ❖ 1. Get Started!
  - ❖ Lead the team
  - ❖ Planning reduces fear
  - ❖ Get it off your plate or start making changes



# Three Key Items

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2. Quantify Before You Modify!
  - ❖ Know the numbers
  - ❖ Assess the impact
  - ❖ Strategically make business decisions
  - ❖ Reevaluate the numbers



# Three Key Items

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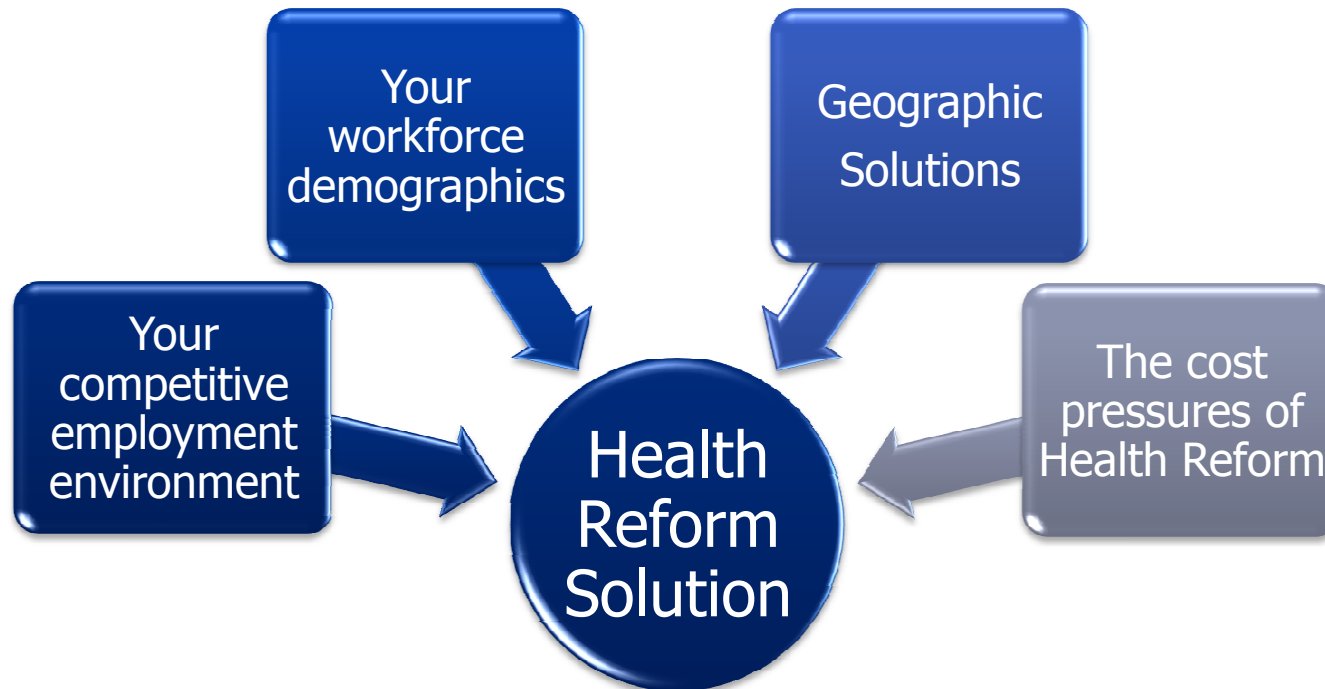
## 3. Potential Outcomes

- ❖ Use Healthcare Reform as a "Catalyst for Change"
- ❖ Build employee loyalty
- ❖ Reduce turnover
- ❖ Attract key employees



# What is the Impact to Your Workforce & Growth?

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There is an opportunity to proactively plan rather than simply adjust to health care costs



# Where Do We Go From Here?

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- ❖ BE OPPORTUNISTIC ABOUT PAYMENT REFORM AND LOCAL MARKET SOLUTIONS
- ❖ TRANSITION DESIGNS TO ENCOURAGE ACCOUNTABILITY
- ❖ Evaluate talent management strategy
- ❖ Communicate intentions internally & prepare comments for external constituents
- ❖ Prepare to evaluate marketplace relative to strategy
- ❖ How will you manage the measurement/stability period?
- ❖ APPLY CONTINUOUS IMPROVEMENT
- ❖ Decide if your current representation can make all of the above happen for you effectively & efficiently

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# Questions?

# Contact

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