



Prospering in a post reform world: The revolution in healthcare and other benefits

presented by:



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Today's presenters

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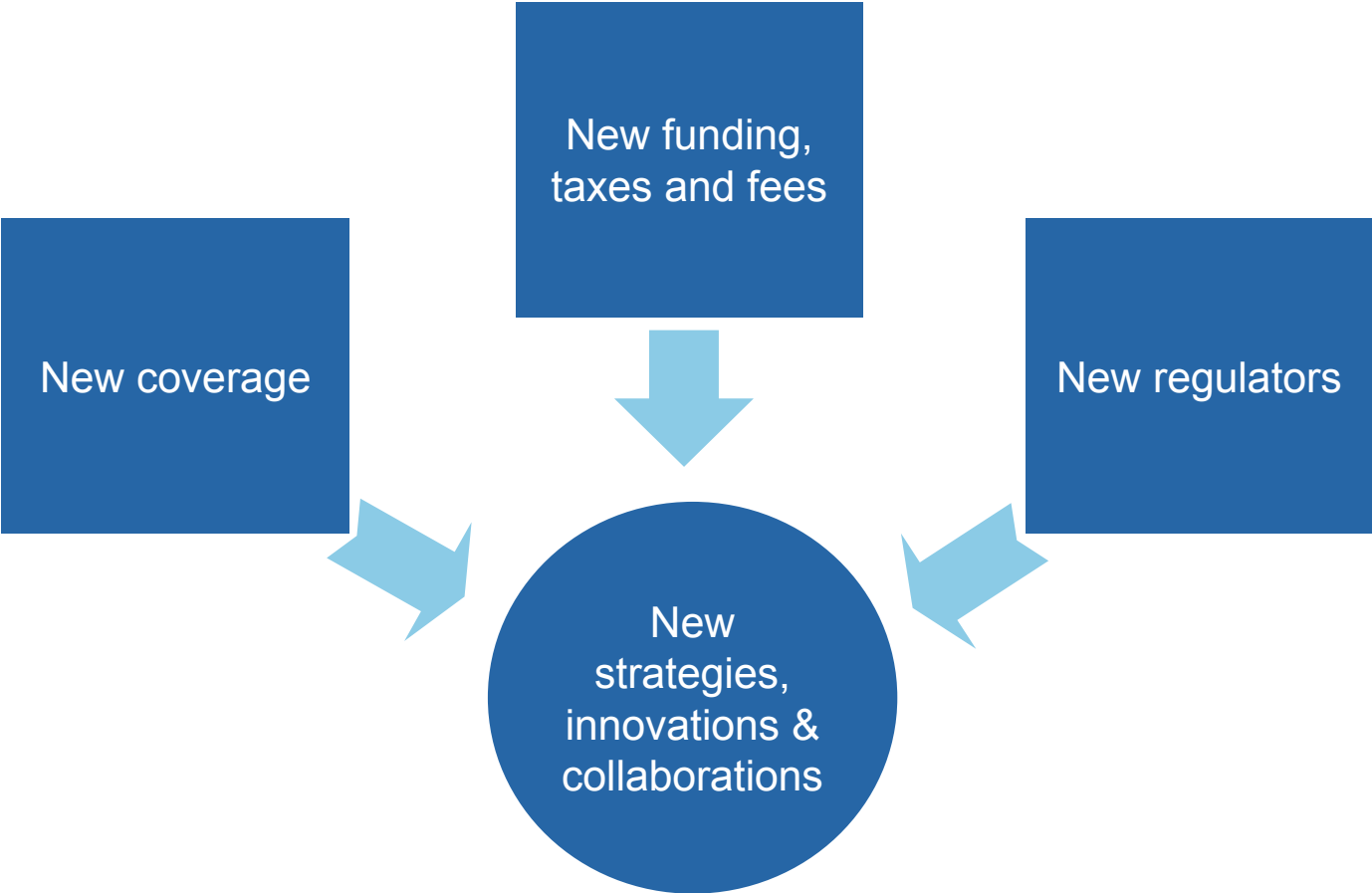
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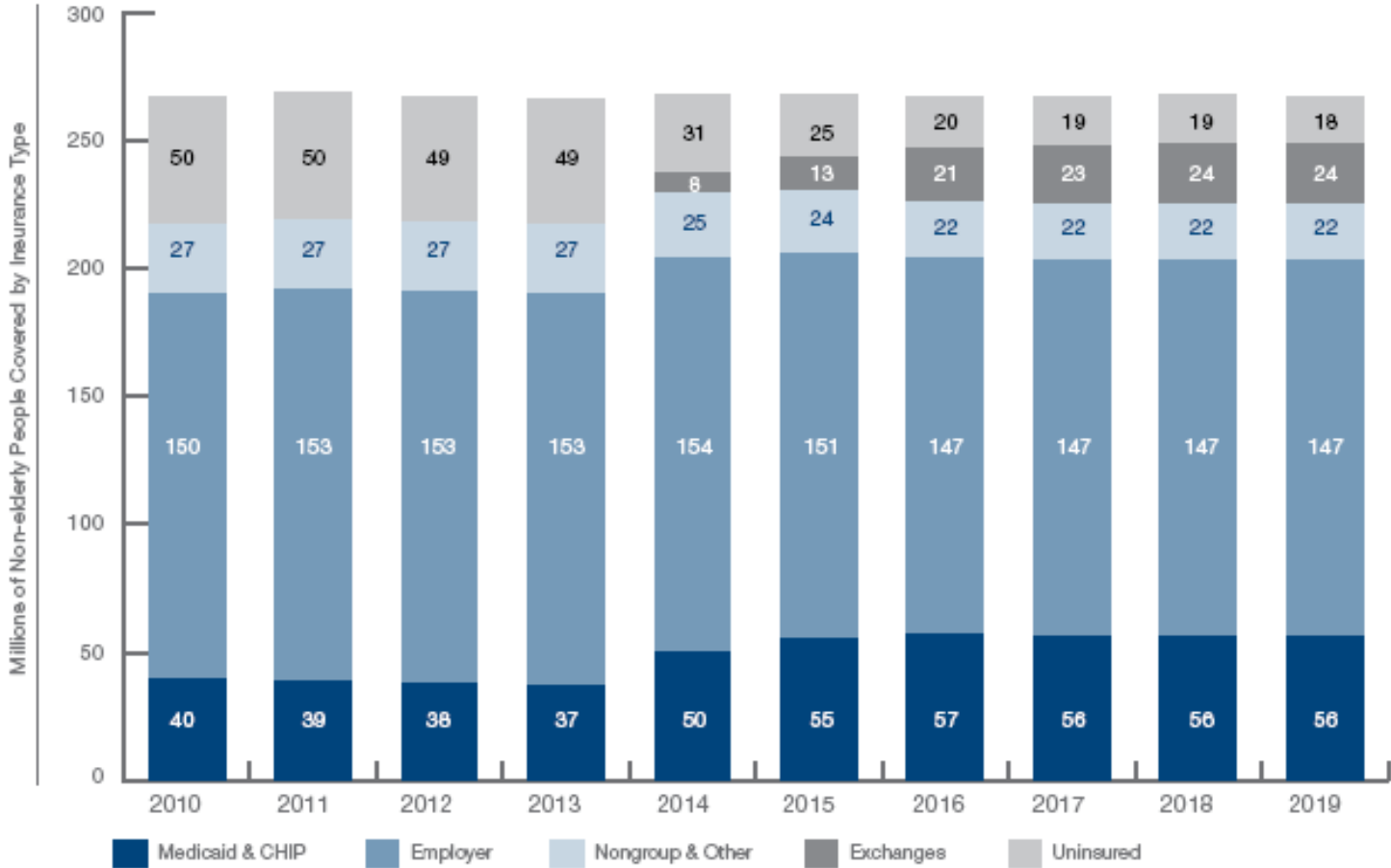
Section 1

Health Reform Overview

Health Reform Makes Collaboration an Important Strategy for Success



Health Reform Reduces the Number of Uninsured by 32 million by Expanding Medicaid and Creating Exchanges

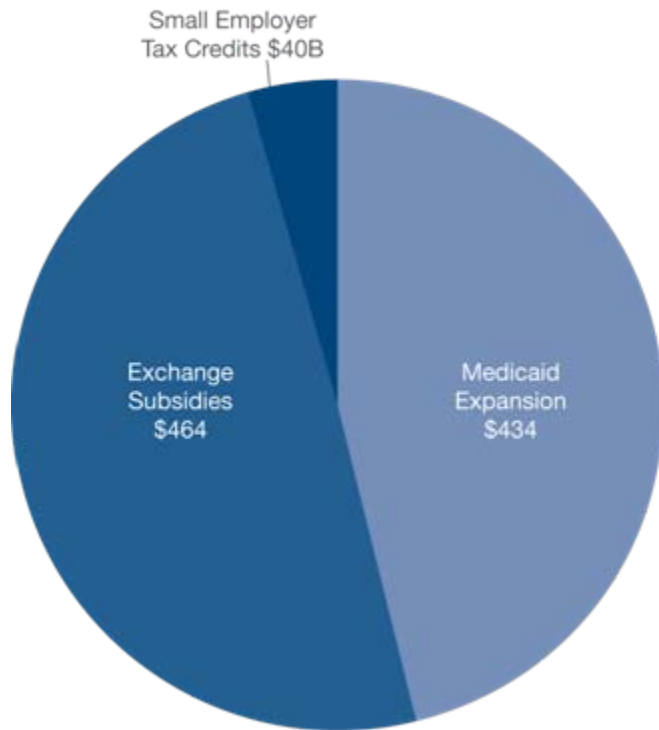


32 million individuals gain insurance coverage at a cost of \$214 billion in 2019

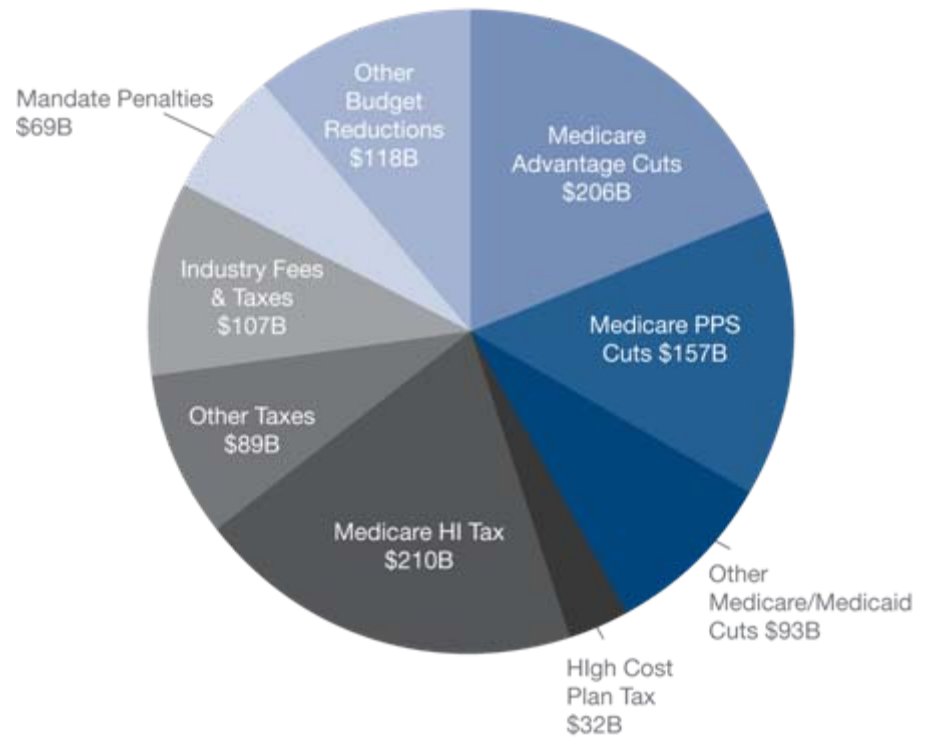
Sources: CBO, Letter to Nancy Pelosi, 20 March 2010.

Federal Funding of Coverage is Paid with New Fees, Taxes and Payment Reductions

Spending on health reform-\$938B



Paying for health reform-\$1,081B



Sources: CBO Letter to Nancy Pelosi, 20 March 2010;
 Joint Committee on Taxation Report JCX-16-10, 20 March 2010;
 PricewaterhouseCoopers Analysis

Regulators Involved in the Implementation of Health Reform

Major new regulators will oversee cost control and innovation

Control cost of existing programs

- Independent Payment Advisory Board
- National Prevention Health Promotion and Public Health Council
- Patient-centered Outcomes Research Institute

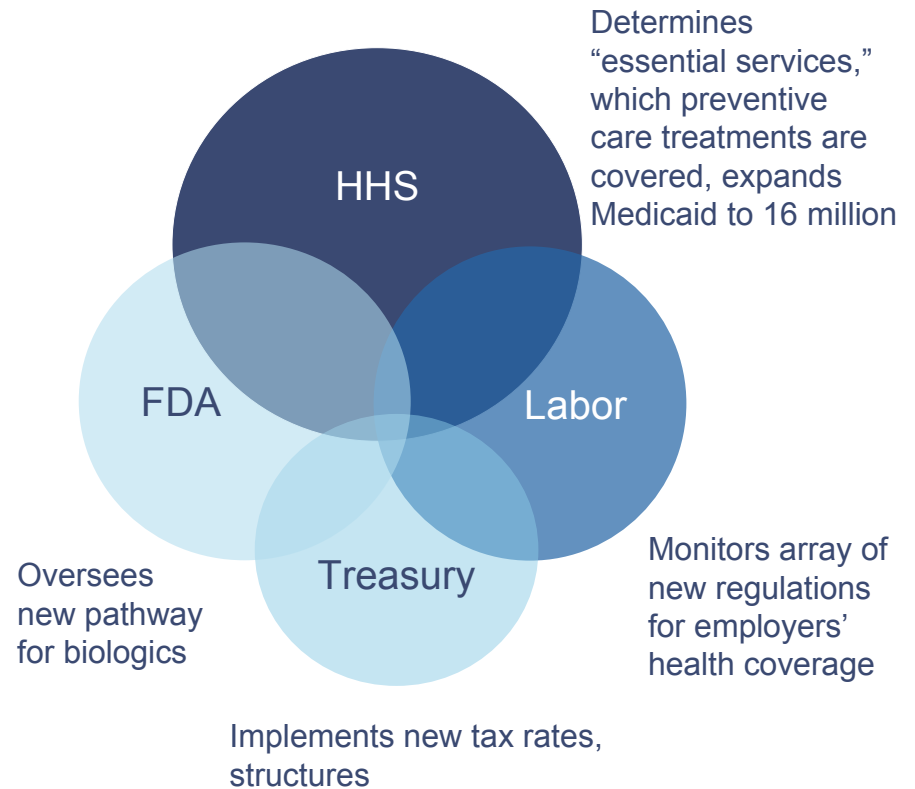
Implement new programs

- Community Living Assistance Services and Supports
- Health Insurance Reform Implementation Fund

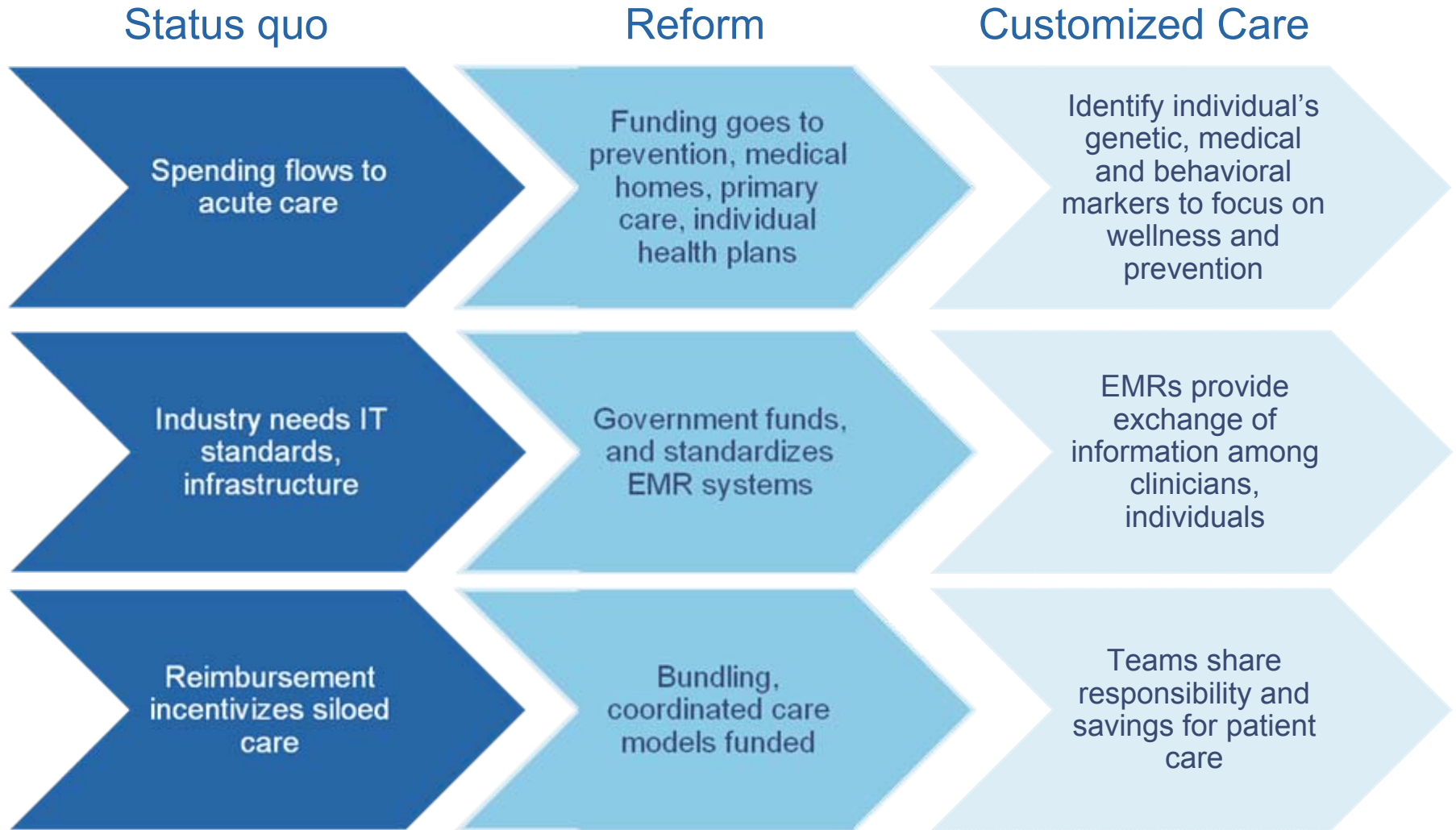
Create new ways of funding, delivery

- CMS Innovation Center
- Community-based Collaborative Care Network Program

Existing federal agencies take on complex new responsibilities



How Health Reform Moves the Status Quo to Customized Care



Section 2

Employer Implications – Legal Analysis

The Road to Universal Health Care

A Historical Outline of Regulation in the United States

1930s – First health insurance

- Blue Cross forms at Baylor Hospital to provide discounted health benefits to members

1940s - 1950s – Employers begin providing health care

- National Mental Health Act provides care for soldiers with mental trauma
- Shortage of workers/imposition of price and wage freezes to limit inflation
- Internal Revenue Code amended to provide tax deduction for sickness benefits
- Commercial insurance companies generate competition

1965 – Government health care for seniors

- Medicare covers all citizens age 65 or older
- First step toward a national health care plan

1980s – Incremental changes

- COBRA requires continued access to employer-provided health coverage after termination of employment or other events that result in loss of coverage
- EMTALA requires hospitals to give emergency care regardless of citizenship or ability to pay
- Nondiscrimination required for all employer-provided health care - REPEALED

The Road to Universal Health Care

A Historical Outline of Regulation in the United States

1990s – Universal health care rejected but portability improved

- 1993 – Clinton health care plan, which would have provided universal health care, was rejected because it was expensive and over-regulated
- 1996 – Health Insurance Portability and Accountability Act
 - Pre-existing condition limitations and prohibitions on discrimination based on health factors
 - Encourages the widespread implementation of electronic data interchange throughout the U.S. health care industry to protect privacy

2009 - 2010 – Government-mandated health care coverage and funding

- ARRA – COBRA subsidy
- Patient Protection & Affordable Care Act and Health Care and Education Reconciliation Act of 2010 signed into law

Health Care Reform: Are Cost Estimates Reliable?

**Table 1: By a Country Mile:
Historical Examples of Erroneous Health Care Cost Estimates
(billions of dollars*)**

Benefit	Estimated cost at time of enactment**	Actual cost	Diff.	Error ratio
UK National Health Service	.260	.359	-.099	1.38 to 1
Medicare hospital insurance	9	67	-58	7.44 to 1
Medicare (entire program)	12	110	-98	9.17 to 1
Medicare ESRD program	.1	.229	-.129	2.29 to 1
Medicaid DSH program	1	17	-16	17.00 to 1
Medicare home care benefit	4	10	-6	2.50 to 1
Medicare catastrophic coverage***	5.7	11.8	-6.1	2.07 to 1
Massachusetts Health Reform	.725	.869	-.144	1.20 to 1

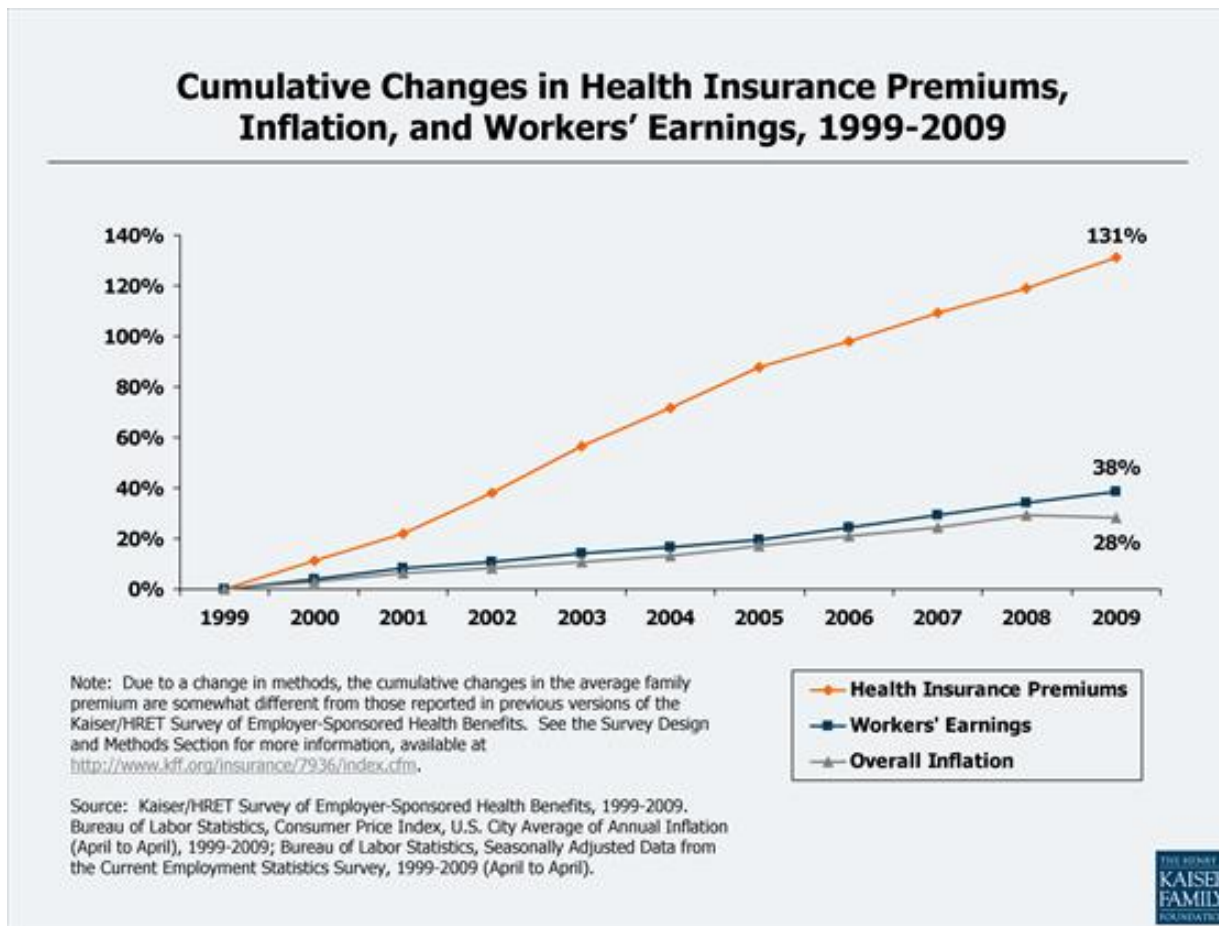
* UK example is in British pounds. **All figures are per-year or for a single specified year, unless otherwise noted. See accompanying text for additional details.

*** Multi-year estimate.

Source: Joint Economic Committee, Republican staff, July 2009.

Health Care Inflation

Health Care Inflation Outpaces Overall Inflation (1999-2009)



Source: Kaiser Family Foundation/HRET Survey of Employer-Sponsored Health Benefits, 1999-2009.

Health Care Reform: 2011 Requirements

Significant Provisions

Coverage for Dependents Under 26 Required

- Health plans that provide coverage to dependent children must cover children to age 26
- Eligibility for dependent child must be based only on relationship between participant and child (i.e., no requirements relating to financial dependency, residency, student status, or eligibility for other coverage)
- There are exceptions for grandfathered plans (see slide 21)

No Pre-existing Condition Exclusions for Children Under Age 19

- Children under age 19 with pre-existing conditions may not be denied coverage

No Lifetime Limits, Restricted Annual Limits

- “Essential Benefits” - no lifetime limits and limited annual limits may be allowed until 2014

Preventative Services Required

- Preventative services (e.g., mammograms, certain vaccinations) with no cost sharing must be provided

Health Care Reform: 2011 Requirements

Nondiscrimination Rules Expanded to Insured Plans

- Nondiscrimination rules previously applied only to self-insured plans, now apply to fully insured plans
- Violations result in a \$100 per-day, per-participant excise tax

Early Retiree Reinsurance Program

- Employers providing coverage to retirees 55 or older ineligible for Medicare can apply for limited claim reimbursement from government
- Reimbursement limited to 80% of claims between \$15,000 and \$90,000
- First-come, first-served basis – draft application forms now on-line
- Government budget limited to \$5 billion

Over-the-Counter Drugs No Longer Reimbursable on a Pre-Tax Basis

- Flexible spending accounts and health reimbursement arrangements may no longer reimburse over-the-counter drugs without a prescription

Health Care Reform: 2011 Requirements

Administrative Reforms

- Required Form W-2 reporting of the aggregate “cost” of employer-sponsored plan coverage, other than contributions to any Archer medical savings account, health savings account, or cafeteria plan

Community Living Assistance Services and Supports (“CLASS”) Program

- Provides benefits for assisted living services and support
- Optional for employers; participating employers must automatically enroll employees, who may opt out
- Employee pays premiums
- Not government subsidized at present

External Appeals and Advance Notice of Plan Changes

- Mandatory implementation of external appeals review process
- 60 days notice required before making material changes (effective date unclear - November 1, 2010?)

Health Care Reform: 2014 Requirements

Employer Mandate

- Large Employers (more than 50 full-time employees)
 - Fail to provide full-time employees coverage
 - Coverage must be affordable (employee contribution must be less than 9.5% of household income)
- Penalties
 - Failure to offer coverage: \$2,000 per year per employee
 - Failure to provide affordable coverage: \$3,000 per year, per full-time employee for whom coverage is unaffordable and gets coverage through a government health exchange

Individual Mandate

- Penalty for individuals with no coverage:
 - For 2014, greater of \$95 per uninsured person or 1% of household income over 4X poverty level
 - For 2015, greater of \$325 per uninsured person or 2% of household income over 4X poverty level
 - For 2016 and beyond, greater of \$695 per uninsured person or 2.5% of household income over 4X poverty level

Health Care Reform: 2014 Requirements

Free Choice Vouchers

- Employers that subsidize coverage must provide “free choice vouchers” to non-participating low-income employees (i.e., employees who would be required to contribute between 8%-9.8% for coverage whose household income does not exceed 4X poverty level)
- A free choice voucher represents the amount of the employer subsidy that the employee can use to purchase alternative coverage on the state exchanges

State Exchanges

- States to establish exchange through which individuals may purchase coverage

Automatic Enrollment

- Employers with more than 200 full-time employees that offer coverage must automatically enroll new (and current?) full-time employees, who may opt out

Essential Benefits

- Group health plans are required to provide specified essential benefits (e.g., emergency services, hospitalization, pediatric care, prescription drugs)

Health Care Reform: 2014 and 2018 Requirements

Wellness Programs

- Expand wellness program incentives to 30% (increased from 20%) of cost of coverage

Additional Reporting Requirements

- Employers required to provide government with annual reports containing participant information and plan coverage data

2018: Cadillac Plan Tax

- 40% excise tax on employer providing coverage with value exceeding \$10,200 for individual coverage and \$27,500 for family coverage
- Higher thresholds apply for retirees over age 55 and certain high-risk professions (e.g., law enforcement, fire fighting, construction, mining, agriculture, forestry, and fishing)

Health Care Reform: Grandfathered Plans

Grandfathered Plans


- Group health plan in effect on March 23, 2010
- Grandfathered plans exempt from:
 - Age 26 dependent coverage for dependent with other employer-provided group health plan until 2014
 - Preventative services with no cost sharing
 - Nondiscrimination rules
 - External appeals process
 - Essential benefits without cost sharing
 - Clinical trial participation
- The following will not change the status of a grandfathered plan:
 - Renewal of coverage of existing participants or enrollment of existing participants' dependents
 - Enrollment of new employees
 - Expanding coverage to include dependents to age 26

Section 3

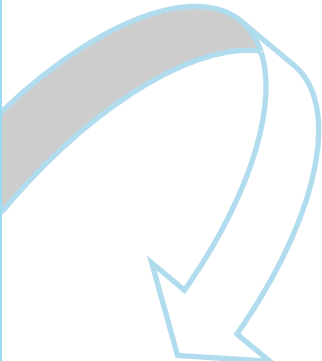
Strategic Considerations

Three Tranches of Health Reform

Regulation and coverage (2010-2013)

- Elimination of pre-existing coverage exclusions for children and lifetime coverage limits and rescissions; dependent coverage through age 26
 - MLR minimums for non-grandfathered plans
 - Medicare Part D gap narrows, Medicare Advantage rates frozen, bonuses available, beneficiary rebates, free preventive care
 - Temporary high risk pools
 - Fee on brand -name pharmaceutical manufacturers
 - Community Living and Support Services Act (CLASS Act)
- 

Major expansion of coverage (2014)

- Mandates for individuals
 - Employer penalties for those that do not provide coverage
 - Health insurance exchanges
 - Small employer and individual subsidies
 - Health insurer industry fee
 - Guaranteed issue, rating bands, and risk adjustment
 - Medicaid expansion
 - Disproportionate share payment reductions to hospitals
- 

Bending the cost curve (2015-2020)

- Penalty for not adopting electronic medical records
- Independent Payment Advisory Board (IPAB)
- High-cost plan excise tax
- Medicare Part D “Doughnut Hole” closes
- Reduced payment for hospital-acquired conditions

New Medicare Taxes (Effective 2013)

Additional 0.9% tax on income in excess of:

- \$200,000 for single taxpayers, or
- \$250,000 for married filing jointly

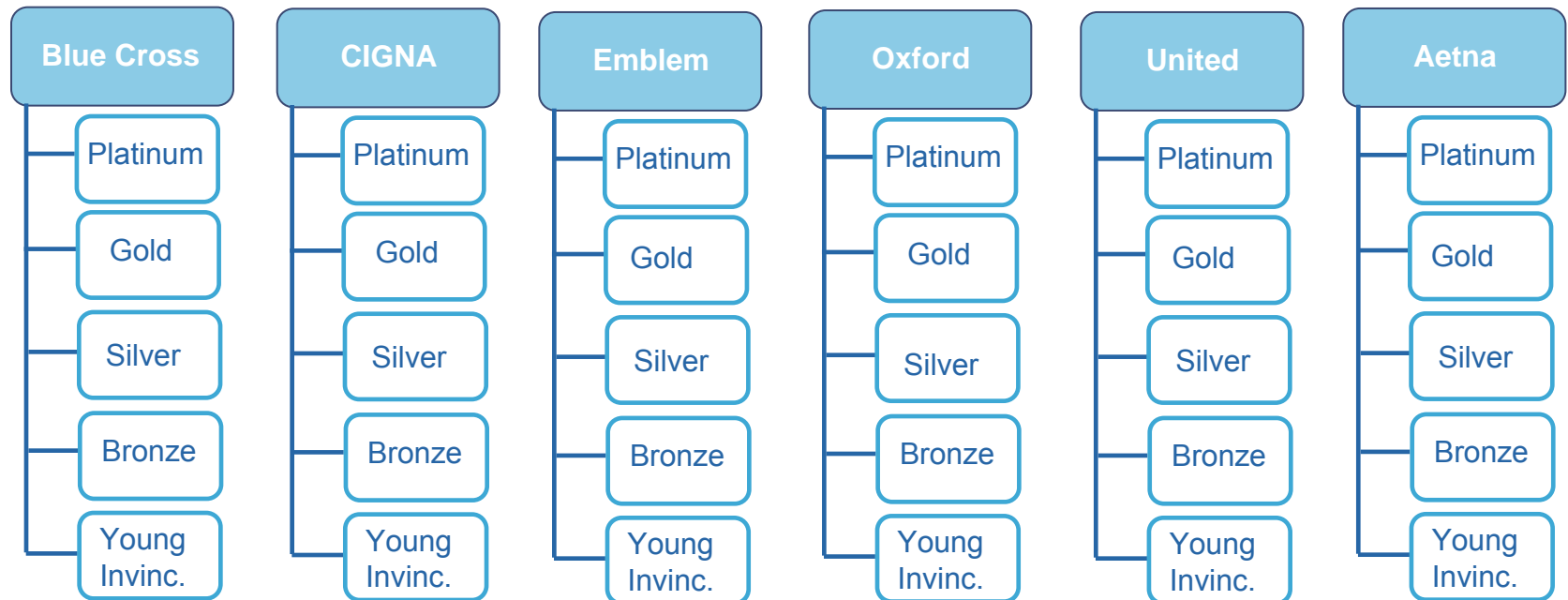
Employers will withhold on wages above the \$200,000 threshold; taxpayers may owe additional amounts (or may be entitled to refunds) based on family income

Unearned income over the same threshold amounts will be subject to a new 3.8% Medicare tax as well

- Investment income includes gross income from interest, dividends, annuities, rents and royalties as well as net capital gain.
- investment income does not include distributions from a qualified retirement plan or amounts subject to self-employment taxes.

New Market for Health Care Coverage in 2014

- State or region-based marketplaces for health insurance for individuals and small businesses
- Private health plans sell their products side-by-side
- Health benefits standardized
- Enrollment and information through website and phone hotline
- Improved consumer choice and pricing transparency



- * Employers must provide Notices to Employees about the Exchanges (3/2013)
- For plan years beginning before 1/2016, states may provide that only ≤ 50 employees can participate
- States may open to large employers in 2017

Impact of Healthcare Reform will Vary

Employer segment	High impact provisions	Key decisions
Retail industry: low-wage, high turnover workforce	<ul style="list-style-type: none"> • Coverage expansion • Free rider penalty • Free choice voucher 	<ul style="list-style-type: none"> • Revise or drop employee coverage • Consider funding access to the exchange (when available)
Mature industries with large retiree populations	<ul style="list-style-type: none"> • Retiree drug subsidy • Temporary pre-65 reinsurance • Close Part D “Doughnut Hole” • Cutbacks in Medicare Advantage funding 	<ul style="list-style-type: none"> • Assess retiree medical accounting impact • Re-assess strategy on retiree medical benefits
Industries with high average wage (e.g., financial services)	<ul style="list-style-type: none"> • Additional 0.9% Medicare tax • New 3.8% Medicare tax on unearned income • Nondiscrimination requirements for new insured plans 	<ul style="list-style-type: none"> • Communicate potential under-withholding to 2 wage-earner families • Consider additional qualified plan options (distributions not subject to 3.8% tax) or shifting capital gains to earned income

Strategic Issues for Consideration

Eligibility

- What role should you play with respect to health benefits when access is guaranteed in the open market?
- How will employment policies (e.g. minimum work week) be influenced by “free rider” requirements?
- How does the perceived value of health benefits compare to other rewards?
- If employers elect not to offer coverage, will individual penalties under reform ensure coverage?
- How will health benefits policies be influenced by labor issues?
- Will there need to be specific solutions targeted for unique populations?

Strategic Issues for Consideration

Contribution and Funding Strategies

- What coverage should businesses provide for dependents?
- How will tax policies and tax subsidies influence contribution and funding strategies?
- Should you move toward a defined contribution medical plan designs in the state exchanges?
- How should a defined contribution plan design take into account age, gender, area, and health status?
- How can aggregators be utilized to make state exchanges more accessible and viable for national employers?

Strategic Issues for Consideration

Mitigating cost increases and impact on financial statements

- How can we ensure payment reform is accelerated to fundamentally realign incentives in the system?
- How should new provider infrastructures like ACOs and medical homes be integrated into our strategies?
- How should personal responsibility for health behaviors be defined and rewarded?
- How can we leverage community health initiatives to accelerate our efforts?
- How do we avoid continued cost shift and promote transparency and accountability for cost management?

Strategic Issues for Consideration

Retiree Health

- How will insurance reforms (e.g. guaranteed issue, subsidies) mitigate need for pre-65 retiree medical?
- How should Medicare solvency issues and future reforms be factored into our planning?
- How should we support employees in retirement planning for health security in a post-reform world?

Strategic Issues for Consideration

Compliance and administration

- What are the long term risks and burdens associated with a post-reform environment?
- How could third parties relieve the increased burden and risk of compliance and administration?
- How could outsourcing help to simplify support in a post-exchange world?

Section 4

Questions and Answers

