



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

presented by:

*PRICEWATERHOUSECOOPERS* 

Duane Morris<sup>®</sup>

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## Today's presenters

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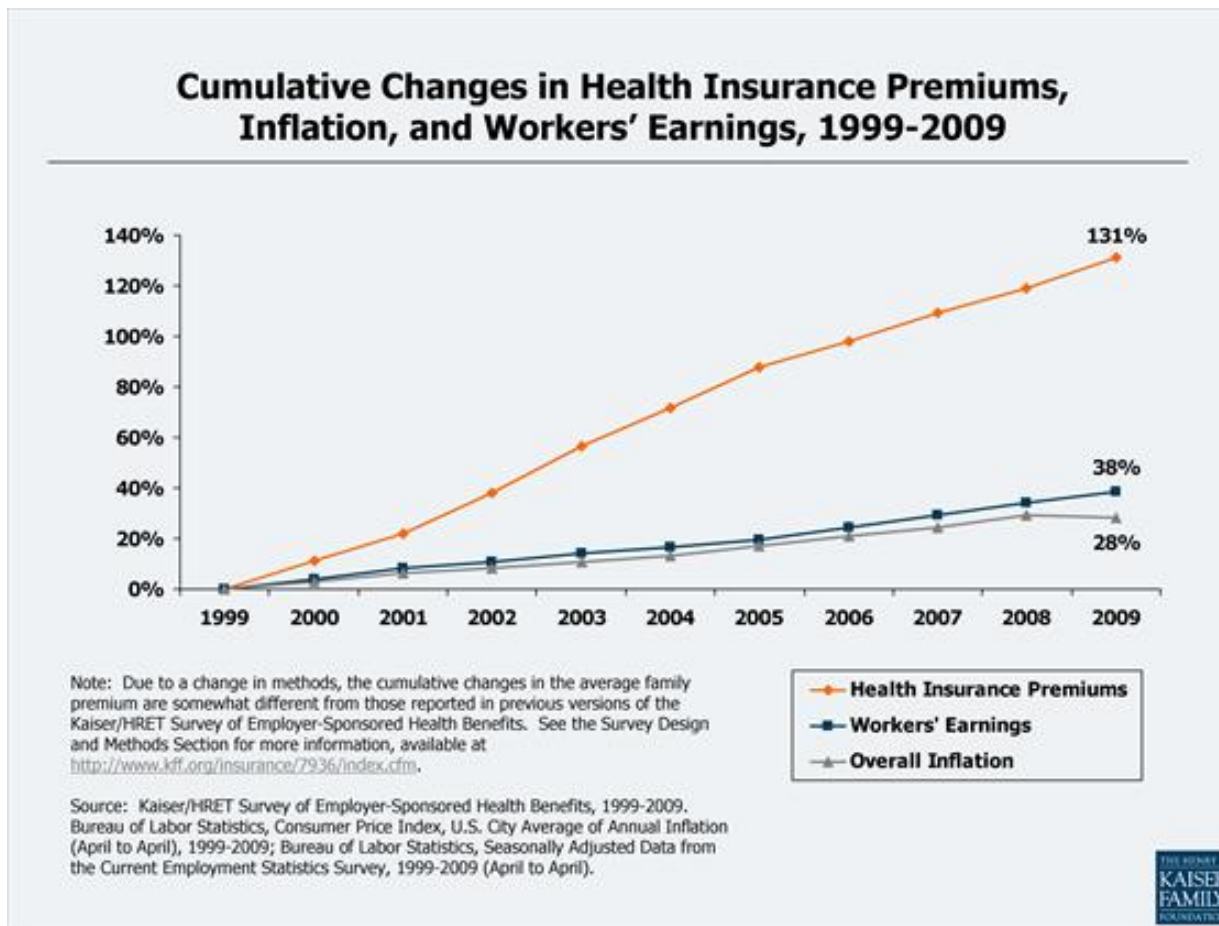
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# Section 1

## Health Reform Overview

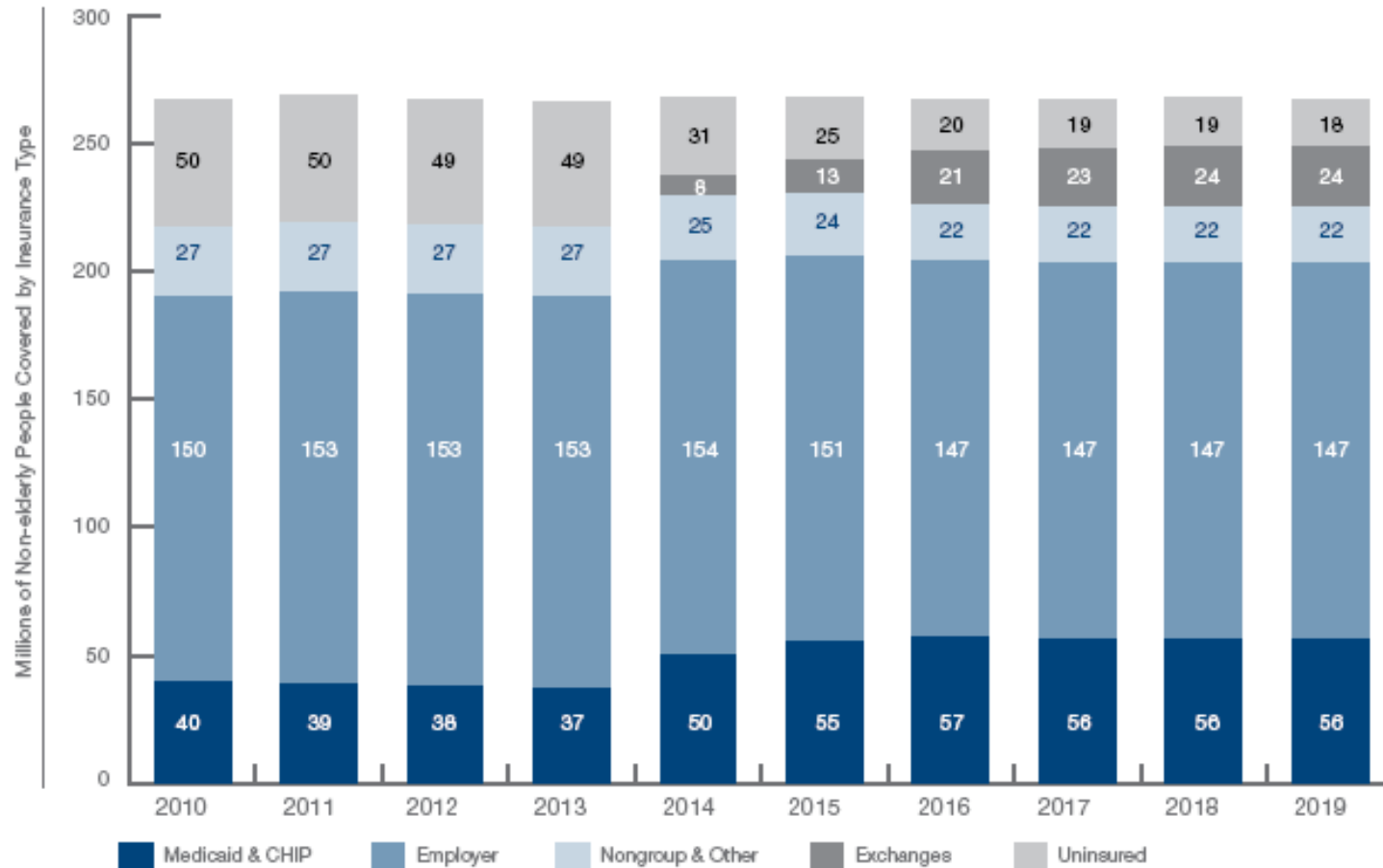
# Health Care Inflation – Why Are We Here Today ?

## Health Care Inflation Outpaces Overall Inflation (1999-2009)



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

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

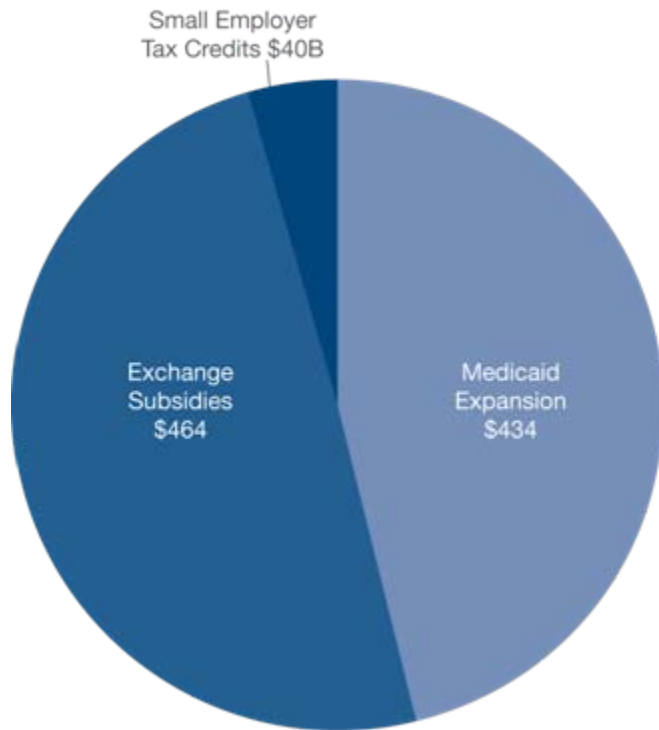


32 million individuals gain insurance coverage at a cost of \$214 billion in 2019

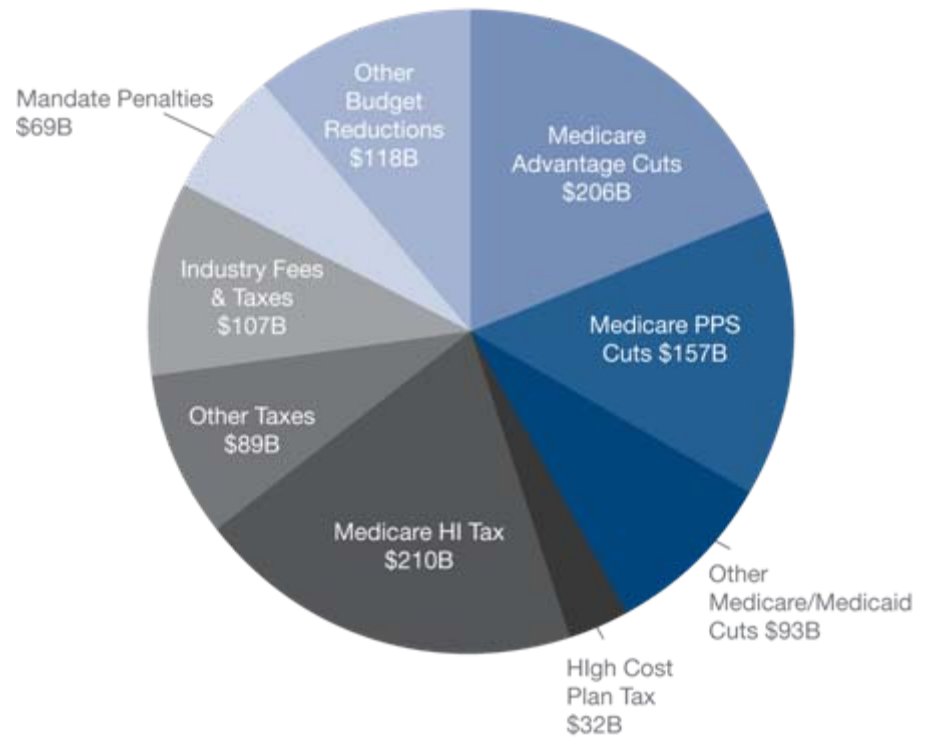
Sources: CBO, Letter to Nancy Pelosi, 20 March 2010.

# 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

# Official government estimates of impact of health reform to employers: 2014-2019

1. CBO estimates that the average premium in the employer sector will fall slightly. That makes sense if the mandate draws some people who are healthy into buying insurance at work when they did not do so before the mandate.
2. CBO estimates that there will be 3 million fewer people will be covered by employers. (CMS also estimates that employers will cover fewer workers.)
3. Fewer covered workers times lower premiums per worker equals lower overall costs (2014-2019).
4. The changes from 2010-2013 are more regulatory than material in costs. Many of the extra benefits can be balanced with reductions in other benefits. (Since there is no mandated coverage until 2014.)

# 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

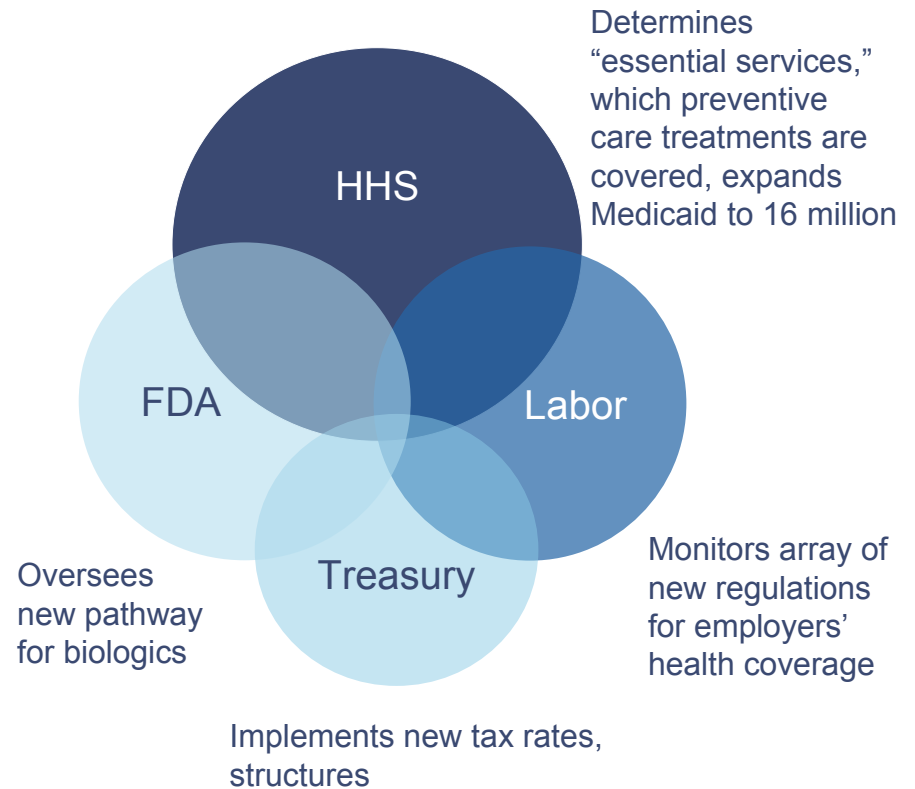
### Implement new programs

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

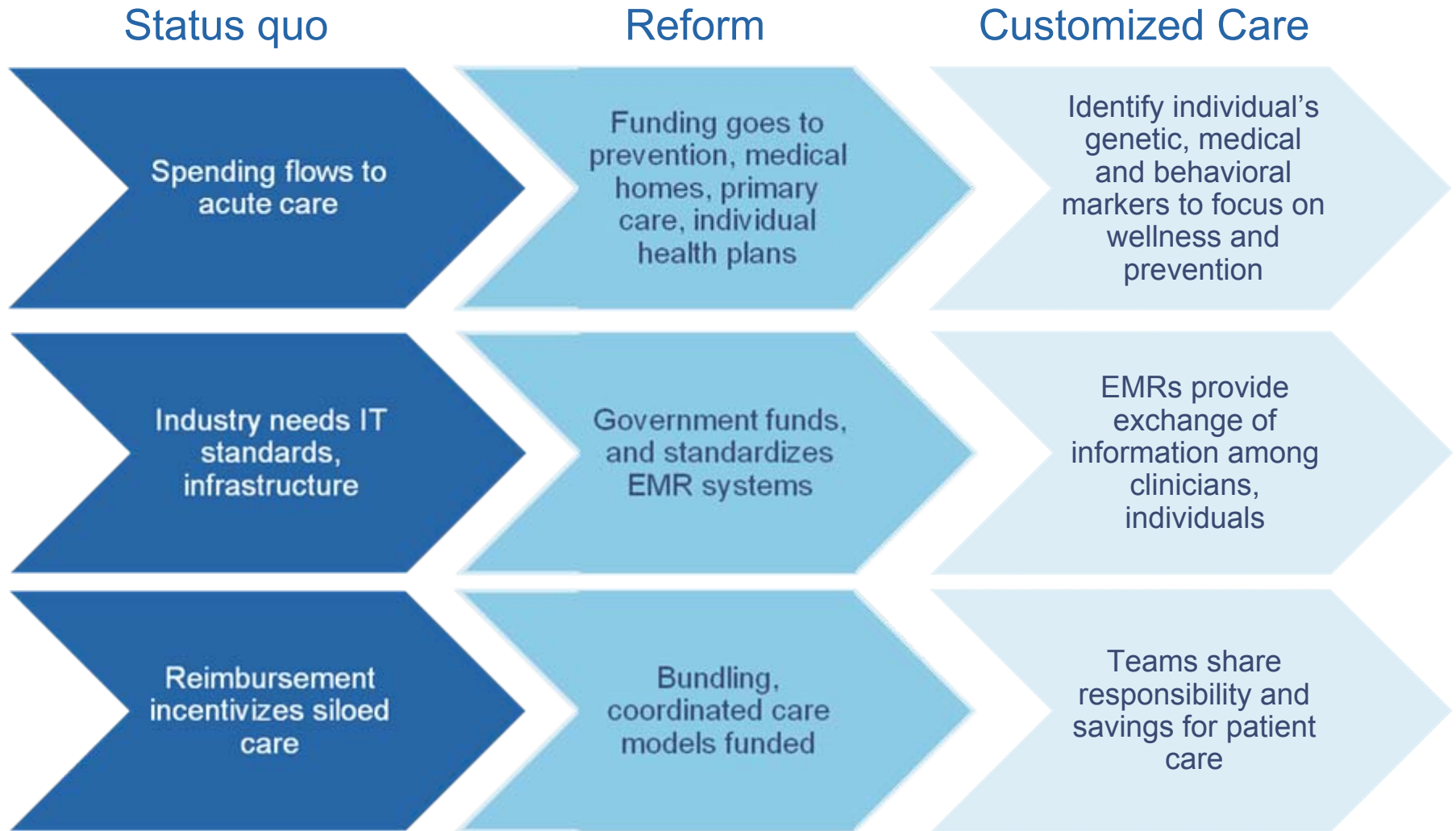
### Create new ways of funding, delivery

- 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

# 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)

### 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

### 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-serve 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 for 2011 sent in 2012 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
- Auto-enrollment for employers with more than 200 employees
- Must provide summary of benefits coverage

## **Community Living Assistance Services and Supports (“CLASS”) Act (Optional)**

- 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 (notification necessary as early as November 1, 2010 possibly)

# Health Care Reform: 2013 Requirements

## **Health Flexible Spending Accounts**

- Employee contributions limited to \$2,500 per year
- Limit to be indexed for CPI

## **Administrative Reforms**

- Written notices of coverage options must be provided.
- At hiring for new employees and no later than March 1, 2013 for current employees

## **Additional Fees/Taxes**

- \$1 per individual coverage fee as “Comparative Research Tax”
- \$2 per individual in 2014
- Paid by insurer or by plan administrator if self-insured
- Likely passed on as a cost of coverage

# 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

## Essential Benefits

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

## Other Coverage Requirements

- Health Plans may not apply a waiting period that exceeds 90 days.
- Deductibles may not exceed \$2,000 for singles; \$4,000 for family coverage.
- Out of pocket expenses may not exceed coverage related to HSAs.

# 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:
  - Preventative services with no cost sharing
  - Nondiscrimination rules
  - External appeals process
  - Essential benefits without cost sharing
  - Clinical trial participation
  - Pre-existing condition prohibition until 2014
  - Deductible and out-of-pocket limits
- 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

## What was left out?

### **Cost containment/reduction solutions**

Which way are we bending the cost curve?

### **Enough physicians**

Will we ever see a primary care doctor?

### **Lessons learned from Massachusetts**


Are we really replicating their mistakes?

## Section 3

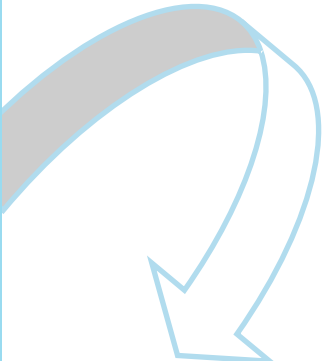
### Impact on Employers

# 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
  - 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  $\leq 50$  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"> <li>• Coverage expansion</li> <li>• Free rider penalty</li> <li>• Free choice voucher</li> </ul>	<ul style="list-style-type: none"> <li>• Revise or drop employee coverage</li> <li>• Consider funding access to the exchange (when available)</li> </ul>
Mature industries with large retiree populations	<ul style="list-style-type: none"> <li>• Retiree drug subsidy</li> <li>• Temporary pre-65 reinsurance</li> <li>• Close Part D “Doughnut Hole”</li> <li>• Cutbacks in Medicare Advantage funding</li> </ul>	<ul style="list-style-type: none"> <li>• Assess retiree medical accounting impact</li> <li>• Apply for ERRP</li> <li>• Re-assess strategy on retiree medical benefits</li> </ul>
Industries with high average wage (e.g., financial services)	<ul style="list-style-type: none"> <li>• Additional 0.9% Medicare tax</li> <li>• New 3.8% Medicare tax on unearned income</li> <li>• Nondiscrimination requirements for new insured plans</li> </ul>	<ul style="list-style-type: none"> <li>• Communicate potential under-withholding to 2 wage-earner families</li> <li>• Consider additional qualified plan options (distributions not subject to 3.8% tax) or shifting capital gains to earned income</li> </ul>

# Introduction of Discussion Topics

The “total cost of ownership” of health benefit offerings will be affected by:

- Compliance & Administration
- Eligibility
- Contribution & Funding Strategies
- Cost Increases & Impact on Financial Statements
- Retiree Health

## Section 4

### Discussion: Strategic Implications

# Compliance & 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?
- Other?

	1 <sup>st</sup> Plan Year After 9/23/2010		2011			2012		2013		2014					2017	2018				
Administrative Process Impacted	Cover Children to Age 26	Elimination of Pre-Existing Condition Exclusion for Children	Elimination of Lifetime Maximums/Restrictions on Annual Maximums	W-2 Reporting (due January 2012)	No OTC Under FSA, HRA, or HSA (w/o Prescription)	Change HSA Penalties	CLASS Act Option	Uniform Statement of Benefits	60-day benefit modification notification	\$2,500 HSA Max	Communicate Exchange	90-Day Waiting Period	*Free Ride on Vouchers and Free-Choice Voucher	Automatic Enrollment (w/ timing)	HSA Annual OOP Limits for plans that are not grandfathered	Employer Reporting Requirement	No Pre-Existing (All)	Preventive & Wellness Incentives	Exchange May Open to Large Employers	High Cost Plan/Excise Tax
Employee Communications	X	X	X	X	X	X	?	X	X	X	X	X	X	X	X	X	?	X		
Vendor Coordination	X	X	X	X	X		?	X	X	X		X	X	X	X	X	?	X	X	
Compliance	X			X	X	X	?	X	X	X		X	X		X		?	X	X	
Payroll Accounting				X			?		X		X	X		X			?	X	X	
Sub-Financial (if applicable)	X	X	X		X	X	?	X	X	X	X	X	X	X	X	X	?	X		
Eligibility	X	X					?					X	X			X	?	X		

**PARTIAL LIST - FOR ILLUSTRATION ONLY**

# 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?
- Other?

# Contribution & Funding Strategies

- How much should businesses subsidize dependent coverage?
- How will tax policies and tax subsidies influence contribution and funding strategies?
- Should you move toward a defined contribution medical plan design 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?
- Other?

# Cost Increases & Impact on Financial Statements

- Will payment reform fundamentally realign incentives in the system?
- How should new provider infrastructures like ACOs and medical homes be integrated into employers' 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?
- Other?

# 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?
- Other?

