



NCCMP Annual Conference
September 26–28, 2011
The Diplomat Hotel, Hollywood, Florida

AFFORDABLE CARE ACT

Modeling The Impact of State Health Exchanges and Federal Subsidies

September 2011

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Response to Health Care Reform

- Most group plans will see no cost relief from ACA in the short term
- Plan will have added costs from:
 - Expanded eligibility rules (age 26)
 - Unlimited coverage
 - Expanded coverage of select preventive services
 - New taxes
 - New Administrative expenses
- Much of the Focus is on Individuals and Small Groups
- However, we need to focus on Impact of:
 - Federal Premium Subsidies
 - Impact of Exchanges on Future Market Choices
 - Avoiding the 40% Premium Excise Tax

Potential Impact of Federal Premium Subsidies

- New Federal Premium Subsidy creates substantial potential for savings to employers/plan sponsors in lower wage industries
- Subsidies are designed to target lower income earners and underinsured sectors of the workforce (e.g. small group, retail, etc)
- Potential for plan sponsors to eliminate risk of medical trends
 - Shift burden of medical trends to individual, federal government and insurers (eg. Defined benefit vs Defined contributions)
- Could subsidies and state health exchanges impact the future of bargaining and benefit packages.
 - Greater emphasis on wages, less on benefits?
 - Potential to be an intrusion to future bargaining



Employer Free-Rider Penalty

- Applies to employers with 50 or more full-time employees, including public sector employers
 - Must aggregate hours of part-time employees to create total number of full-time employees
 - Subtract first 30 workers when paying assessment
- If the employer **does not** offer coverage (and one employee receives a tax credit in the Exchange)
 - Penalty is \$2,000 (annualized) times the **total #** of full-time employees (minus first 30)
- If the employer **does** offer coverage but coverage is unaffordable or actuarial value is less than 60%
 - Penalty is \$3,000 (annualized) times **# of full-time employees getting tax credit** in Exchange (penalty max)

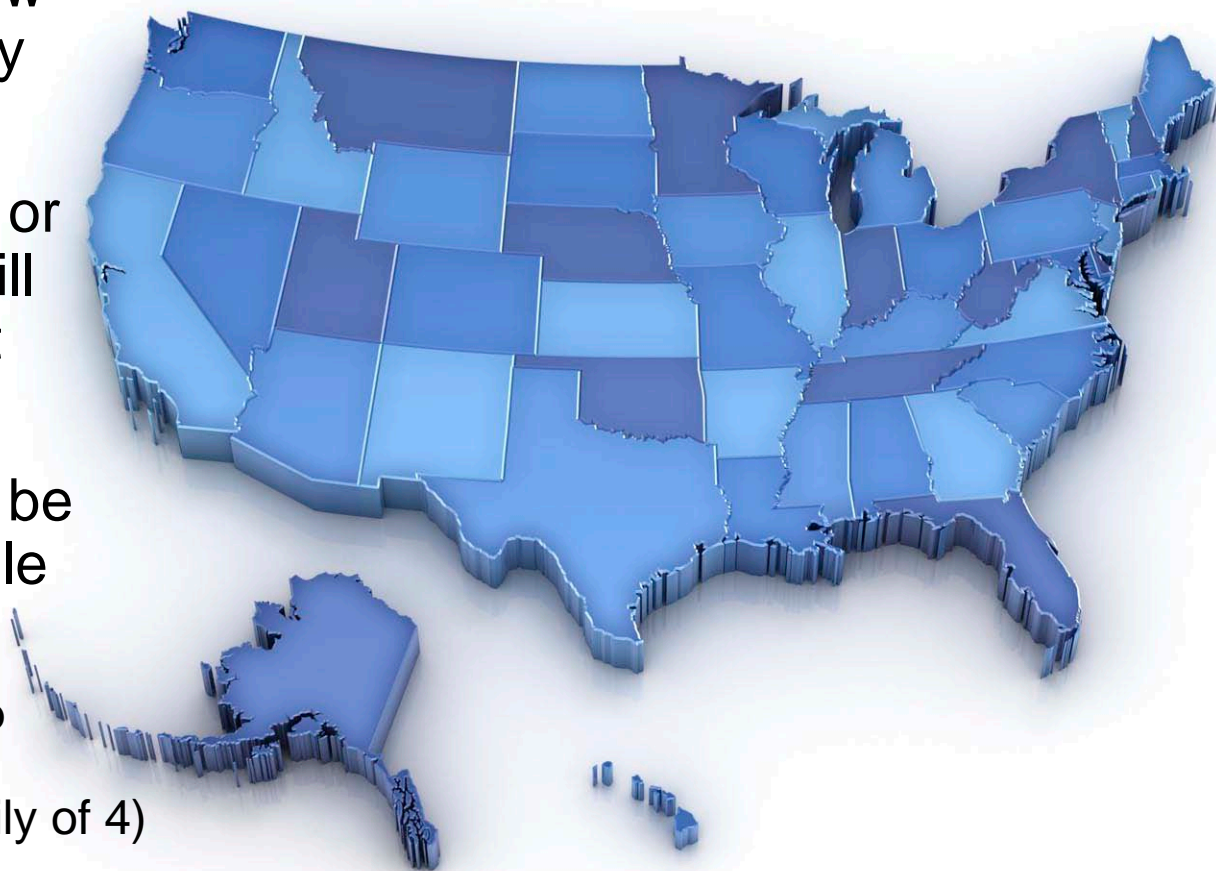
Employer Decisions to Pay or Play

- Will some employers push to pay the penalties rather than provide qualified medical coverage?
- Will employers get smaller to avoid the penalties?
 - Part time rules suggest no easy way around the free rider penalties.
- Will the Free Rider “tax” help to level the playing field between employers?
 - Raises the cost of labor for bargained and non bargained employers that don’t provide comprehensive coverage today (or unqualified plans)
- The small group tax deductions help very small, lower wage groups (\$25,000 in annual salary and 10 lives) and is temporary

State Health Insurance Exchanges

The New Marketplace

- **2014:** State Health Insurance Exchanges will allow individuals and small employers to choose from a menu of insurance products
- **2017:** States may allow large employers to buy through Exchanges
- States must establish or federal government will offer Exchange in that state
- Federal subsidies will be available to help people buy coverage
 - Families with incomes up to 400% of poverty level (\$89,400 in 2011 for family of 4)



Qualified Health Plans on the Exchange

Must...

- Offer “essential benefits”
- Offer at least one silver plan and one gold plan
- Charge the same premium whether a plan is sold through the Exchange or offered outside the Exchange
- Guaranteed issue and renewal
- Follow underwriting rules
 - Rates vary only by the following:
 - Individual v. family
 - Rating area
 - Age no more than 3 to 1
 - Tobacco use, no more than 1.5 to 1



Impact of Federal Premium Subsidies— Employer Dumping Example

Model employer savings assuming employer terminates group health plan and replaces with added wages to purchase coverage through state exchanges

- Employer pays maximum premium to member in wages (model assumes a non bargained scenario)
- Employers pay Free-Rider penalty
- Model includes estimate of added tax burden to both employer and employee
- Model shows savings before and after changes to member out of pocket expenses
- Savings is compared to trended 2014 group health plan costs (claims plus administrative expenses of current medical and prescription drug coverage)

Poverty Guidelines

2014 ESTIMATED* POVERTY GUIDELINES FOR THE 48 CONTIGUOUS STATES AND THE DISTRICT OF COLUMBIA

| Persons in Family | 100% FPL | 133% FPL | 400% FPL |
|-------------------|----------|----------|-----------|
| 1 | \$11,727 | \$15,598 | \$46,909 |
| 2 | \$15,841 | \$21,068 | \$63,364 |
| 3 | \$19,955 | \$26,540 | \$79,819 |
| 4 | \$24,069 | \$32,012 | \$96,274 |
| 5 | \$28,182 | \$37,482 | \$112,729 |
| 6 | \$32,296 | \$42,954 | \$129,184 |
| 7 | \$36,410 | \$48,425 | \$145,639 |
| 8 | \$40,523 | \$53,896 | \$162,094 |

* 2014 estimate based on 2011 levels increased by 2.5% per year.

Premium Assistance Tax Credit Calculation

The premium assistance tax credit is calculated based on:

- The premium cost of the second-lowest-cost silver plan offered through a state health benefit exchange, and
- The household income level of the applicant

| Household Income Level (% above FPL) | Maximum Premium as Percentage of Income |
|---|--|
| Up to 133% | 2.0% |
| 133 – 150% | 3 – 4% |
| 150 – 200% | 4 – 6.3% |
| 200 – 250% | 6.3 – 8.05% |
| 250 – 300% | 8.05 – 9.5% |
| 300 – 400% | 9.5% |

Case Study—Wage Increase to Pay for Silver Plan

CURRENT COSTS VS. PENALTY AND PREMIUM PAYMENTS TO EXCHANGE FOR SILVER PLAN

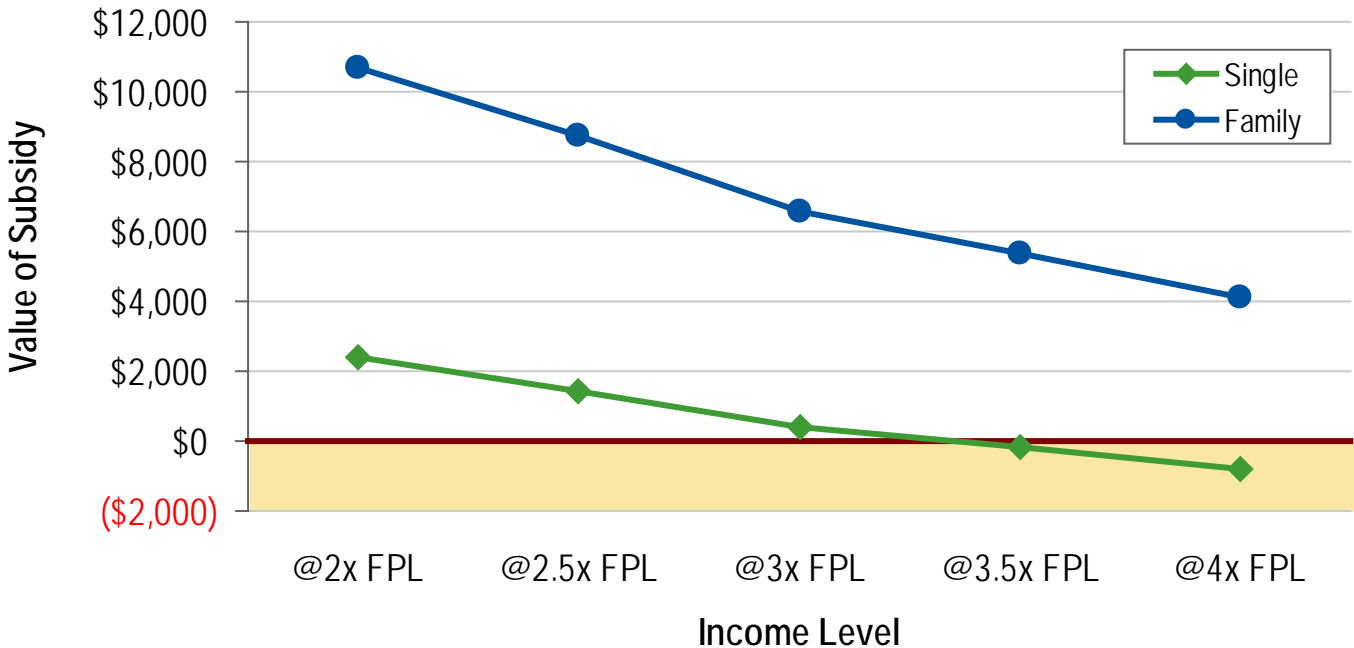
| | | (a) Estimated Fund Cost 2010 | (b) Projected Fund Cost 2014 | (c) Exchange Maximum Premium | (d) Employer Penalty | (e) Employer Tax on Additional Wages | (f) Total New Employer Cost (c)+(d)+(e) | (g) Employer Savings Before Member OOP Exp and Tax (b)-(f) | (h) Member Additional Cost Sharing | (i) Member Tax on Additional Wages | (j) Overall Program Savings after Member OOP Expense and Tax (g)-(h)-(i) |
|--------|-----------|---------------------------------------|---------------------------------------|---------------------------------------|----------------------------|---|---|--|---|---|---|
| Single | | \$ 4,406 | \$ 5,994 | \$ 1,478 | \$ 2,000 | \$ 111 | \$ 3,588 | \$ 2,405 | \$ - | \$ 259 | \$ 2,147 |
| Family | @200% FPL | \$ 11,735 | \$ 15,965 | \$ 3,033 | \$ 2,000 | \$ 227 | \$ 5,260 | \$ 10,705 | \$ - | \$ 531 | \$ 10,174 |
| Single | | \$ 4,406 | \$ 5,994 | 2,360 | \$ 2,000 | \$ 177 | \$ 4,537 | \$ 1,457 | \$ 902 | \$ 413 | \$ 142 |
| Family | @250% FPL | \$ 11,735 | \$ 15,965 | 4,844 | \$ 2,000 | \$ 363 | \$ 7,207 | \$ 8,758 | \$ 2,402 | \$ 848 | \$ 5,508 |
| Single | | \$ 4,406 | \$ 5,994 | \$ 3,342 | \$ 2,000 | \$ 251 | \$ 5,593 | \$ 401 | \$ 1,095 | \$ 585 | \$ (1,279) |
| Family | @300% FPL | \$ 11,735 | \$ 15,965 | \$ 6,860 | \$ 2,000 | \$ 514 | \$ 9,374 | \$ 6,591 | \$ 2,917 | \$ 1,200 | \$ 2,474 |
| Single | | \$ 4,406 | \$ 5,994 | \$ 3,899 | \$ 2,000 | \$ 292 | \$ 6,192 | \$ (198) | \$ 1,095 | \$ 682 | \$ (1,975) |
| Family | @350% FPL | \$ 11,735 | \$ 15,965 | \$ 8,003 | \$ 2,000 | \$ 600 | \$ 10,603 | \$ 5,362 | \$ 2,917 | \$ 1,400 | \$ 1,045 |
| Single | | \$ 4,406 | \$ 5,994 | \$ 4,456 | \$ 2,000 | \$ 334 | \$ 6,791 | \$ (797) | \$ 1,095 | \$ 780 | \$ (2,672) |
| Family | @400% FPL | \$ 11,735 | \$ 15,965 | \$ 9,146 | \$ 2,000 | \$ 686 | \$ 11,832 | \$ 4,133 | \$ 2,917 | \$ 1,601 | \$ (384) |
| Single | Over 400% | \$ 4,406 | \$ 5,994 | 4,823 | \$ 2,000 | \$ 362 | \$ 7,184 | \$ (1,190) | \$ 1,095 | \$ 844 | \$ (3,130) |
| Family | FPL | \$ 11,735 | \$ 15,965 | 12,846 | \$ 2,000 | \$ 963 | \$ 15,809 | \$ 156 | \$ 2,917 | \$ 2,248 | \$ (5,009) |

- Assumes employers pay maximum premiums and penalties, except over 400% FPL, cost equals expected silver plan premium. (note-plan pays 100% of unsubsidized premium for silver plan for members with income over 400% FPL.
- 8% annual trend rate.
- Salary becomes taxable to both member (varies based on income) and employer (7.5% payroll tax) vs. tax-free value of health coverage.
- Variable new wages by income to pay by health premium may create discriminatory payments.
- Assumes 4 persons per family as the basis for Federal Poverty Level (FPL) determination.
- Cost sharing impact assumes Silver Plan actuarial value of 87% at 200% FPL, 73% at 250% FPL, and 70% at higher income levels.

Exchange Savings – Employer Dumping Plan Example

RELATIONSHIP BETWEEN FEDERAL SUBSIDY VALUE AND INCOME—2014

Employer Savings from Exchange Before Member Cost Sharing Difference



For Illustrative Purposes Only

The Dynamics of New Federal Premium Subsidies

However savings is not without other consequences:

- Tax implications to employers and employees must be factored in
- Loss of greater purchasing leverage of group buyer
- Individual subject to market forces
- Loss of group and union advocacy/affiliation
- Increase in member out-of-pocket expenses – Silver plan has lower actuarial plan value than most bargained health plans
- Loss of customization and control
- Potential loss of group subsidy for older individuals

Member Out-of-Pocket Disruption Example

EMPLOYER PAYS MAXIMUM PREMIUM AND PENALTY

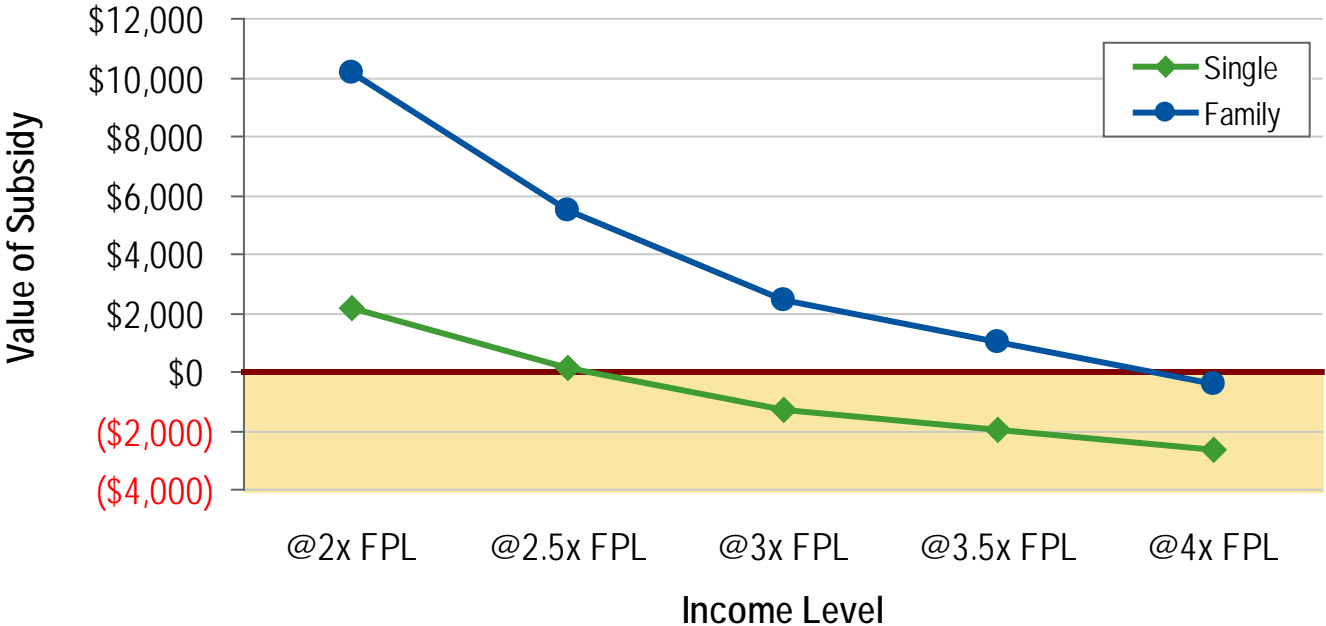
| | |
|--|----------------|
| Index of FPL | 250% |
| 2014 Income Threshold Family of 4 (estimate) | \$60,171 |
| Max Annual Exchange Premium (8.05%) | \$4,844 |
| Annual Penalty | \$2,000 |
| Employer Pays Max Premium and Penalty | \$6,844 |
| Plan Costs (2014) | \$15,965 |
| Average Member Out-of-Pocket Expense – Current Plan | \$2,230 |
| Expected Member Out-of-Pocket Expense – Silver Plan Exchange | \$4,632 |
| Employer Savings (Before Member Cost Shifting) | \$9,121 |
| Taxes on Added Wages | \$1,211 |
| Net Savings (After Member Cost Shifting and Tax) | \$5,508 |

- Assumes actuarial value of 87% current plan value vs. 73% Silver plan value - adjusted for cost sharing subsidy
- Assumes 7.5% tax on employer and 17.5% tax burden on employee. Salary becomes taxable to both member and employer vs. current tax-free value of health coverage.

Exchange Savings—Employer Dumping Example

RELATIONSHIP BETWEEN FEDERAL SUBSIDY VALUE AND INCOME—2014

Overall Program Savings from Exchange After Member Cost Sharing Difference



For Illustrative Purposes Only

Aggregate Impact in 2014—Low Income Group

DISTRIBUTION OF SAVINGS BY INCOME BRACKET

| Index of FPL | # Lives Single | # Lives Family | Overall Program Savings after Member OOP Expense and Tax | | |
|--------------|----------------|----------------|--|------------|-------------|
| | | | Per Single | Per Family | Aggregate |
| 200% | 125 | 375 | \$1,750 | \$8,700 | \$3,481,250 |
| 250% | 150 | 450 | \$620 | \$4,200 | \$1,983,000 |
| 300% | 75 | 225 | \$(1,207) | \$1,400 | \$224,475 |
| 350% | 50 | 150 | \$(1,867) | \$588 | \$(5,150) |
| 400% | 50 | 150 | \$(2,414) | \$(739) | \$(231,550) |
| Over 400% | 50 | 150 | \$(2,815) | \$(4,969) | \$(886,100) |
| Total | 500 | 1500 | | | \$4,565,925 |

Savings represent approximately 25% to 30% of total employer estimated medical plan costs under current Health Fund.

Level and distribution of household income based on illustrative low income group.

Aggregate Impact in 2014—Moderate Income Group

DISTRIBUTION OF SAVINGS BY INCOME BRACKET

| Index of FPL | # Lives Single | # Lives Family | Overall Program Savings after Member OOP Expense and Tax | | |
|--------------|----------------|----------------|--|------------------|----------------------|
| | | | Per Single | Per Family | Aggregate |
| 200% | 50 | 100 | \$1,750 | \$8,700 | \$ 957,500 |
| 250% | 50 | 150 | \$620 | \$4,200 | \$ 661,000 |
| 300% | 75 | 200 | \$(1,207) | \$1,400 | \$ 189,475 |
| 350% | 75 | 250 | \$(1,867) | \$588 | \$6,975 |
| 400% | 100 | 300 | \$(2,414) | \$(739) | \$(463,100) |
| Over 400% | 150 | 500 | \$(2,815) | \$(4,969) | \$(2,906,750) |
| Total | 500 | 1500 | | | \$(1,554,900) |

Modest assumptions of higher incomes result in net cost (lower overall value) to the plan vs. self funded costs under current Health Fund.

Level and distribution of household income based on illustrative moderate income group.

Replace Coverage with \$7,000 Wage Increase

2014 Net Gain or loss to Member and Plan

| Income Level | 2014 Expected Plan Cost | New Wages | Exp Employer Cost (Wage/Penalty/Tax) | 2014 Premium Silver Plan | Added Member OOP Expense | Added Member Tax | Member Gain/(Loss) | Expected Net Gain/(loss) |
|----------------------|-------------------------|-----------|--------------------------------------|--------------------------|--------------------------|------------------|--------------------|--------------------------|
| 200% FPL Single | \$ 6,000 | \$7,000 | \$9,525 | \$1,478 | \$500 | \$1,225 | \$3,797 | \$272 |
| 200% FPL Family | \$ 16,000 | \$7,000 | \$9,525 | \$3,033 | \$1,200 | \$1,255 | \$1,542 | \$8,017 |
| Over 400% FPL single | \$ 6,000 | \$7,000 | \$9,525 | \$4,823 | \$1,500 | \$1,225 | (\$548) | (\$4,073) |
| Over400% FPL Family | \$ 16,000 | \$7,000 | \$9,525 | \$12,846 | \$3,000 | \$1,255 | (\$10,071) | (\$3,596) |

Impact of Federal Premium Subsidies

We modeled a handful of Multiemployer Health Funds

- Higher income levels of the group led to no savings (model projected net cost increase to employer if plan was terminated and wages were provided to pay for premium in the exchange)
- There may be discrimination concerns to employers that pay variable health premiums by income levels.

Savings become even more substantial for:

- Plans with less than 50 employees (no employer penalty)
- Plans with relatively high medical costs to wages ratio (e.g. San Francisco and NYC plans with lower wage service members)
- Plans with older populations

Excise Tax Projection – Client Example

EXCISE TAX FORECAST - CLIENT XYZ

Projected Per Composite Cost vs. New Excise Tax (40%) threshold (2000 FT members)

| CY | Tax Free Threshold | Projected Composite Cost @7% Trend | Expected Tax | Projected Composite Cost @8% Trend | Expected Tax | Projected Composite Cost @10% Trend | Expected Total Tax |
|------|--------------------|------------------------------------|--------------|------------------------------------|--------------|-------------------------------------|--------------------|
| 2018 | \$ 27,500 | \$ 18,721 | \$ - | \$ 20,168 | \$ - | \$ 23,357 | \$ - |
| 2019 | \$ 28,325 | \$ 20,032 | \$ - | \$ 21,781 | \$ - | \$ 25,692 | \$ - |
| 2020 | \$ 29,175 | \$ 21,434 | \$ - | \$ 23,524 | \$ - | \$ 28,261 | \$ - |
| 2021 | \$ 30,050 | \$ 22,934 | \$ - | \$ 25,406 | \$ - | \$ 31,088 | \$ 830,054 |
| 2022 | \$ 30,951 | \$ 24,540 | \$ - | \$ 27,438 | \$ - | \$ 34,196 | \$ 2,595,859 |

- Assumes Federal cost limit increases 3% per year (CPI) and no change in group demographics or plan design value
- Based on Starting 2010 costs of sample of actual Cobra Rates of Multiemployer Health Funds (\$10,896 composite cost)

Open Issues Related to Exchange Modeling

- Will the Fund be eligible to receive the premium assistance tax credit (subsidy)?
- Will free-rider penalty apply to employers that contribute to a multiemployer plan?
- Employer free-rider penalty (if employer bargains to withdraw from current plan)
 - Part-time vs. full-time: Are workforce changes contemplated that would impact penalty calculations?
- Employer free-rider penalty (if employer bargains to maintain some type of plan)
 - What is “minimum essential coverage” in this context?
 - Affordability standard: For subsidy-eligible people, will the “affordability” test of 9.5% of household income be based on single coverage affordability, or family coverage affordability?
- Will there be flexibility in calculating or projecting household income?
- Will the Fund be able to maintain a Health Reimbursement Arrangement and still allow participants to seek coverage in the exchange and receive a premium assistance tax credit (if otherwise eligible)?
- Non-discrimination: May employer pay premiums based on subsidy eligibility or does this violate rules prohibiting discrimination in favor of highly compensated employees?

Health Reform Will Not Change Traditional Strategies

- Most Groups will continue to bargain for both wage and benefits
- Some industries could benefit from federal subsidies
 - Qualify as a Health Plan and receive subsidies directly
 - Potential new source of income for wages and supplemental benefits
- Continue Focus on Managing Plan Cost, Value and Service
 - Competitive Provider Network Discounts
 - Low Fees – Multiyear Provider Reimbursement Fee Caps
 - Network Access
 - Meaningful Performance Standards
 - Coalitions for smaller Health Funds (under 1,000 lives)
 - Efficient Value Based Plan Designs
 - Continue to Implement Health Management Tactics
 - Targeted Wellness plans (Big 4 = weight, tobacco, glucose, blood pressure)
 - Rx Step Therapy and Hospital Readmission reduction programs
 - Audits, Benchmark Studies,

Questions

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