

# Educational Presentation: Affordable Care Act

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City of Boston – PEC Meeting

April 8, 2014

# Discussion Topics

- Affordable Care Act
- Plan Design Implications
- ACA Wellness Guidelines
- Assuring Administrative Compliance
- Affordability and Minimum Plan Value
- How is ACA Affecting Costs?
- Excise Tax (“Cadillac Tax”)

# Affordable Care Act (ACA)

- On March 23, 2010, President Obama signed the Patient Protection and Affordable Care Act (or ACA) into law
- ACA is the most significant regulatory overhaul of the U.S. health care system since the passage of Medicare and Medicaid in 1965
- Goals: Increase the quality and affordability of health insurance, lower the uninsured rate by expanding access to insurance, and reduce the cost of healthcare
- ACA applied to the City's group health plans beginning on July 1, 2011
- The City's health plans lost their grandfathered status as of July 1, 2012

# Plan Design Implications

- The following changes have been implemented by the City to comply with ACA:
  - July 1, 2011 – the City began covering all adult children up to age 26
  - Lifetime benefit maximums were eliminated – Blue Choice Plan’s out-of-network \$1,000,000 benefit maximum and Master Medical Plan’s \$250,000 extended benefit maximum
  - July 1, 2012 – 100% coverage for specific in-network preventive health services
  - August 1, 2012 – 100% coverage for preventive services was expanded for women’s preventive health care services
  - January 1, 2013 – Flexible Spending Arrangement (FSA) maximum contribution reduced to \$2,500

# Plan Design Implications *continued*

- Effective July 1, 2014, the following will be implemented:
  - Medical out-of-pocket maximums of \$6,350 per member and \$12,700 per family (current plans with lower out-of-pocket maximums will not change)
  - NHP medical and prescription drug copayments will accumulate to the out-of-pocket maximums
  - No benefit maximum on hair prosthesis/wigs
- Effective July 1, 2015, the following will need to be implemented to comply with ACA:
  - The combined medical and prescription drug out-of-pocket maximum will not exceed \$6,350 per member and \$12,700 per family (NHP implemented this on July 1, 2014)
- Employer Shared Responsibility Penalty requirements apply on July 1, 2015

# ACA Wellness Guidelines

- Under ACA, non-grandfathered plans are required to provide coverage for preventive care, including routine screenings, well exams, immunizations, contraceptives
- Beginning for plan years on or after January 1, 2014, wellness program financial incentives can increase to 30% of total cost of employee coverage (financial incentives for smoking cessation can increase to 50% of total cost)
- Wellness Programs promote health and help control health care spending
  - Positive cost impact in long-term
  - The 2018 Excise Tax emphasizes the need to decrease health care spending

# Assuring Administrative Compliance

- Administrative requirements:
  - Offer health coverage to full-time employees *as defined by the ACA*
  - ACA full-time employee: Has 30 or more “hours of service” per week or 130 or more hours per month
    - Hours of service: paid work hours, paid time off, paid FMLA or military leave
    - City already exceeds requirement by offering coverage to part-time employees who work 20 hours or more
    - *But.* Need to make sure City offers health coverage to “variable hour employees” – individuals where it’s not known if they will work 30 hours
  - 90-day waiting period rule
    - Coverage must be offered within 90 days after individual becomes eligible
    - Employer can require employee to complete one-month “orientation period” before the 90-day waiting period begins
  - Start collecting data for employer/plan reports due in 2016

# Affordability & Minimum Plan Value

- **Determine Affordability of Coverage**
  - Employer must offer self-only coverage in its lowest cost plan that does not exceed 9.5 % of employee's Form W-2, Box 1 wages
  - Must offer coverage to dependents to age 26 (ACA does not require coverage for spouses)
  - "Dependents" are natural and adopted sons and daughters, and children placed for adoption
  - Stepchildren and foster children do not have to be offered coverage
- **Determine Plan Minimum Value**
  - Plan must pay at least 60% of expected claims
  - Three ways to measure: federal "minimum value" calculator, design-based safe harbors, or certification by actuary



# Affordability & Minimum Plan Value *continued*

- All the City's non-Medicare plans provide Platinum Public Exchange Plan coverage as defined by ACA
- Minimum value is based on in-network benefits as out-of-network utilization is limited and its impact on the plan values is deemed immaterial

Public Exchange Metal Plan	Actuarial Value
Platinum	90%
Gold	80%
Silver	70%
Bronze	60%

Plan	Government Minimum Value Calculator
HPHC HMO	92.0%
HPHC POS	92.0%
BMC HMO*	93.0%
Blue Choice	92.0%
Blue Care Elect	92.1%
NHP HMO	92.0%

\* assumes that all participants will seek care at BMC facilities for services with lower copayments at such facilities.

# ACA Timeline of Potential Cost Implications for Health Plans

Provision	Effective date
Dependent children eligibility to age 26	2011
Remove lifetime limits (annual limit removal will vary)	2011
New taxes/fees on pharma, insurers and medical device companies passed on to plans	2011 – 2014
Transitional Reinsurance fees	2014 – 2016
Comparative Effectiveness (PCORI) fees	2012 – 2020
Non-Grandfather plans: <ul style="list-style-type: none"> <li>• 100% Preventive services</li> <li>• Emergency room parity</li> <li>• Clinical trial procedure expenses</li> <li>• Limit out-of-pocket maximum to \$6,350/\$12,700</li> <li>• Provider nondiscrimination</li> </ul>	New Plans or when existing Plan loses Grandfathered status
40% Excise Tax	2018

# Health Plan ACA Fees

Health Care Reform Summary	Basis	2013	2014	2015	2016	2017	2018
PCORI Fees PMPY	Plan Year	\$1.00	\$2.00	\$2.06	\$2.12	\$2.19	\$2.25
Transitional Reinsurance Fees PMPY	Calendar Year	N/A	\$63.00	\$44.00	\$29.33	N/A	N/A
Fully Insured Premium Tax (% of Premium)	Plan Year	N/A	2.25%	2.25%	2.25%	2.25%	2.25%

*Italics indicate estimate*

## Patient Centered Outcomes Research Institute Fee (PCORI)

- Applies to City plans for the plan year beginning July 1, 2012
- Initial Year 1 fee of \$1.00 per covered life per year; increases in Year 2 to \$2.00 per covered life per year; expected to increase at CPI thereafter; and sunset in 2020

## Transitional Reinsurance Fee

- Goal of reinsurance programs is to stabilize the individual insurance market in 2014 – 2016
- Calendar year 2014 fee is \$63 per covered life per year
- Calendar year 2015 fee is \$44 per covered life per year

## Fully Insured Premium Tax

- Included in NHP rates and expected to increase premiums by approximately 2.25%

# ACA Fees and City Plans

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Patient Centered Outcomes Research Institute Fee (PCORI)</b>	\$53,000	\$106,000	\$109,000	\$112,000	\$116,000
<b>Transitional Reinsurance Fee</b>	N/A	\$1,345,000	\$2,285,000	\$1,527,000	\$587,000

- Estimated amounts are based when the fees are effective (*i.e.*, not when they are paid)
  - PCORI estimates assume 53,000 total covered lives in the City's plans
  - Transitional Reinsurance estimates assume 42,700 total covered lives in the City's non-Medicare plans
- Transitional Reinsurance fees only apply to non-Medicare covered lives

# Excise Tax (“Cadillac Tax”)

## Effective in 2018

- 40% tax on excess over threshold
- Based on total cost of coverage; employer plus employee premium share

## Cost threshold for tax (indexed after 2018)

- \$10,200 Single, \$27,500 Family
- Increased by \$1,650 Single, \$3,450 Family:
  - For retired individuals age 55 or older and not eligible for Medicare
  - If majority of employees covered by the plan are:
    - Engaged in a high-risk profession (list in statute, includes construction), or
    - Employed to repair/install electrical or telecommunications lines

# Excise Tax Cost Threshold

- Cost threshold based on cost of plan:
  - Increasing employee contributions does not affect the cost of the plan or the Excise Tax threshold
  - Consequently, the value of the plan must be lowered to avoid reaching the threshold—cost shifting to participants does not lower the value of the plan
- Excise Tax Thresholds
  - 2018 – may be adjusted by the Congressional Budget Office (CBO) if the actual growth in the cost of U.S. health care between 2010 and 2018 exceeds the projected growth for that period
  - 2019 and beyond – indexed for inflation based on the Consumer Price Index for all urban consumers (CPI-U) + 1% for 2019 and CPI-U for 2020 and beyond
- Health Flexible Spending Arrangements (FSA) included in plan cost:
  - The amount of the employee's salary reduction; plus
  - Any employer reimbursement in excess of the salary reduction contribution

# Excise Tax and the City's Plans

## FY 2015 Projected Cost Versus 2018 Excise Tax Threshold

- At the current 2018 excise tax thresholds, the City plans are estimated to generate a combined total of \$3.6 million in excise taxes.

### Active Employees Excise Tax – Estimated \$1.5 million

	HPHC HMO		HPHC POS		Blue Choice		Blue Care Elect		NHP	
	Individual	Family	Individual	Family	Individual	Family	Individual	Family	Individual	Family
Projected FY 2015 Annual Cost PEPM *	\$8,024	\$21,583	\$8,879	\$23,883	\$11,255	\$29,037	\$17,077	\$39,618	\$7,324	\$19,407
2018 Excise Tax Threshold	\$10,200	\$27,500	\$10,200	\$27,500	\$10,200	\$27,500	\$10,200	\$27,500	\$10,200	\$27,500
Amount Over Threshold	\$0	\$0	\$0	\$0	\$1,055	\$1,537	\$6,877	\$12,118	\$0	\$0
40% Excise Tax	\$0	\$0	\$0	\$0	\$422	\$615	\$2,751	\$4,847	\$0	\$0
Assumed Enrollment	4,850	6,608	632	545	334	287	181	135	880	924
<b>Excise Tax By Plan</b>	<b>\$0</b>		<b>\$0</b>		<b>\$317,000</b>		<b>\$1,152,000</b>		<b>\$0</b>	
<b>Total Excise Tax Based on FY 2015 Projected Cost</b>	<b>\$1,469,000</b>									

Average Annual Increase to Exceed Threshold in 2018 **	7.1%	7.2%	4.0%	4.1%	<i>Already Exceeding</i>	<i>Already Exceeding</i>	9.9%	10.5%
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\* These costs do not include health FSA contributions that apply to the threshold. Including FSA contributions will increase the tax liability.

\*\* Assumes 3.5 years from fiscal year 2015 to calendar year 2018. Specifics on the exact effective date of the excise tax have not been identified.

**Estimates do not reflect increases in claims costs from FY 2015 to 2018. These increases are expected to increase the excise tax estimates.**

# Excise Tax and the City's Plans *continued*

## Non-Medicare Retirees Excise Tax – Estimated \$2.1 million

	HPHC HMO		HPHC POS		Blue Choice		Blue Care Elect		NHP	
	Individual	Family	Individual	Family	Individual	Family	Individual	Family	Individual	Family
Projected FY 2015 Annual Cost PEPM	\$8,024	\$21,583	\$8,879	\$23,883	\$11,255	\$29,037	\$17,077	\$39,618	\$7,324	\$19,407
2018 Excise Tax Threshold	\$11,850	\$30,950	\$11,850	\$30,950	\$11,850	\$30,950	\$11,850	\$30,950	\$11,850	\$30,950
Amount Over Threshold	\$0	\$0	\$0	\$0	\$0	\$0	\$5,227	\$8,668	\$0	\$0
40% Excise Tax	\$0	\$0	\$0	\$0	\$0	\$0	\$2,091	\$3,467	\$0	\$0
Assumed Enrollment	1,414	1,027	137	81	176	91	754	151	101	59
<b>Excise Tax By Plan</b>	<b>\$0</b>		<b>\$0</b>		<b>\$0</b>		<b>\$2,100,000</b>		<b>\$0</b>	
<b>Total Excise Tax Based on FY 2015 Projected Cost</b>	<b>\$2,100,000</b>									

Average Annual Increase to Exceed Threshold in 2018 *	11.8%	10.8%	8.6%	7.7%	1.5%	1.8%	<i>Already Exceeding</i>	14.7%	14.3%
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\* Assumes 3.5 years from fiscal year 2015 to calendar year 2018. Specifics on the exact effective date of the excise tax have not been identified.

**Estimates do not reflect increases in claims costs from FY 2015 to 2018. These increases are expected to increase the excise tax estimates.**



# Who Pays the Excise Tax

- Insurer for fully insured plan
- Plan for self-funded group health plan
- In both instances, the tax will likely be incorporated into the fully insured premium rate or the self-funded premium rate equivalent (*i.e.*, working rate)
- Ultimately, the tax will likely be funded by the employer and employee/retiree's respective shares of the premium/working rate contribution percentage

# ACA Timeline

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## Health Care Reform

### Timeline for Calendar-Year Group Health Plans

#### January 1, 2013

- Women's preventive services (for non-grandfathered plans, effective for plan year beg. on/after August 1, 2012)
- Health FSA salary reduction limited to \$2,500 per year (effective for plan year beg. on/after Jan. 1, 2013, indexed annually)
- Medicare Part A payroll tax: Employers deduct and withhold employees' additional Medicare hospital taxes on annual wages that exceed \$200,000 for individuals (\$250,000 for married couples)
- Tax exclusion of Medicare Part D retiree drug subsidy eliminated
- Medical Device Fee starts (annual fee)
- W-2 reporting on the value of employer-sponsored coverage for 2012 (Jan. 2013)

#### February 2013

Employers prohibited from discriminating or retaliating against an employee who reports a violation of the Affordable Care Act or receives a premium assistance tax credit in a Health Insurance Exchange

#### July 2013

Comparative Effectiveness Research Fee/PCORI: first year fee is \$1 per covered life. For 2012 plan year, return/fees due by July 31, 2013. Fee sunsets after the 2018 plan year

#### October 1, 2013

- Open enrollment for Health Insurance Exchanges begins for individuals and small employers
- Deadline for employers to send notice regarding Exchanges and premium assistance tax credits to current employees. Employers must begin sending the notice to new employees within 14 days of their start date

#### Fall 2013

Summary of Benefits and Coverage (SBC) (first distributed with open enrollment beg. on/after Sept. 23, 2012) Now must distribute with any enrollment opportunity (such as fall open enrollment) and upon request; provide 30 days before start of plan year if no open enrollment

#### January 1, 2014

- Health Insurance Exchange coverage begins for individuals and small employers; premium assistance tax credits available to certain low-income individuals
- Employer Shared Responsibility Penalty begins to apply (**Delayed**)
- Individual Mandate starts, requiring individuals to obtain minimum essential coverage or pay a personal income tax penalty; 2014 penalty is the greater of \$95/adult or 1% of taxable income
- Medicaid expansion to 133% of Federal Poverty Level (at state option)
- Group health plan standards for **all plans** (effective for plan year beg. on/after Jan. 1, 2014): ban on waiting periods that exceed 90 days, ban on annual dollar limits on essential health benefits, ban on pre-existing condition limitations (regardless of age), wellness incentives can be raised from 20% to 30% (up to 50% for smoking cessation programs)
- Group health plan standards for **non-grandfathered plans** (effective for plan year beg. on/after Jan. 1, 2014): cost-sharing limits, coverage relating to routine patient costs associated with approved clinical trials, provider nondiscrimination and protection of employees
- Health Insurance Provider Fee starts (annual fee)
- W-2 reporting on the value of employer-sponsored coverage for 2013 (Jan. 2014)

2013

2014

#### Effective Dates to be Determined in Regulations

- Quality reporting (for non-grandfathered plans, awaiting guidance)
- Nondiscrimination rules for insured plans (for non-grandfathered plans, awaiting guidance)
- Certify compliance with HIPAA EDI standards and operating rules (awaiting guidance)

#### Later in 2014

- Comparative Effectiveness Research Fee/PCORI rises to \$2 per covered life (return/fees due by July 31, 2014)
- Temporary Reinsurance Program Fee (\$63/covered life for 2014) Fee sunsets after 2016
- Use Early Retiree Reimbursement Program (ERRP) reimbursement monies by end of 2014
- Deadline for certain amendments to cafeteria plan documents (Dec. 31, 2014)

# ACA Timeline *continued*

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## Health Care Reform

Timeline for Calendar-Year Group Health Plans

### January 2015

- Individual Mandate Penalty is the greater of \$325/adult or 2% of taxable income
- Employer Shared Responsibility Penalty begins
- Employer Reporting to IRS on 2014 coverage offered to full-time employees, whether minimum essential coverage offered, number of months of coverage, etc. This includes employer reporting to employees by Jan. 31, 2015 (Delayed)
- W-2 reporting on the value of employer-sponsored coverage for 2014 (Jan. 2015)

### Later in 2015

- Comparative Effectiveness Research Fee/PCORI continues (return/fees due by July 31, 2015)
- Temporary Reinsurance Program Fee continues, with national per capita rate for 2015 set in 2014

### 2016

- Individual Mandate Penalty is the greater of \$695/adult or 2.5% of taxable income
- Employer Shared Responsibility Penalty continues
- Employer Reporting to IRS on 2015 coverage (to employees by Jan. 31, 2016)
- W-2 reporting on the value of employer-sponsored coverage for 2015 (Jan. 2016)
- Comparative Effectiveness Research Fee/PCORI continues (return/fees due by July 31, 2016)
- Temporary Reinsurance Program Fee continues (final year), with national per capita rate for 2016 set in 2015

### 2017

- Individual Mandate Penalty is the greater of \$695 (indexed)/adult or 2.5% of taxable income
- Exchanges may permit large employers to purchase Exchange coverage
- Employer Shared Responsibility Penalty continues
- Employer Reporting to IRS on 2016 coverage (to employees by Jan. 31, 2017)
- W-2 reporting on the value of employer-sponsored coverage for 2016 (Jan. 2017)
- Comparative Effectiveness Research Fee/PCORI continues (return/fees due by July 31, 2017)

### 2018

- 40% Excise Tax on health plans that cost above \$10,200 (single) and \$27,500 (family), indexed to the CPI-U
- Individual Mandate and Employer Shared Responsibility Penalties continue
- Employer Reporting to IRS on 2017 coverage (to employees by Jan. 31, 2018)
- W-2 reporting on the value of employer-sponsored coverage for 2017 (Jan. 2018)
- Comparative Effectiveness Research Fee/PCORI (return/fees due by July 31, 2018) Fees for 2018 plan year due by July 31, 2019

2015

2016 and beyond

### Effective Dates to be Determined in Regulations

- Auto-enrollment of new hires (not expected to become effective until after 2014)
- Reporting related to transparency in coverage (for non-grandfathered plans, not sooner than 2015)

# Resource Guide



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## Health Care Reform Guide

After discussing, debating and analyzing for over a year, Congress passed health care reform legislation in March 2010. Throughout the process, Segal has provided timely updates on the latest developments and guidance on how health care reform will affect your health plan.

Below, we have gathered the resources that we are producing to help you as you move forward in making your plan compliant with the new law.

Learn more about our health care reform services for [Multiemployer](#) and [Public Sector](#) plans.

[Health Care Reform Timeline for Calendar-Year Group Health Plans](#)

### Segal Publications

- > [February 8, 2013 Capital Checkup, "Affordable Care Act's Employer Notice of Exchange Coverage Delayed"](#) (for Public Sector plans)
- > [February 8, 2013 Capital Checkup, "Affordable Care Act's Employer Notice of Exchange Coverage Delayed"](#) (for Multiemployer staff plans subject to the rules of single-employer plans)
- > [January 25, 2013 Capital Checkup, "Proposed Rule on the Affordable Care Act's Employer Penalty Addresses Application to Multiemployer Plans"](#) (for Multiemployer plans)
- > [January 25, 2013 Capital Checkup, "IRS Proposes Rule on Employer Penalty Under the Affordable Care Act"](#) (for Public Sector plans)
- > [January 25, 2013 Capital Checkup, "IRS Proposes Rule on Employer Penalty Under the Affordable Care Act"](#) (for Multiemployer staff plans subject to

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# Additional ACA Resources

- Patient Protection and Affordable Care Act of 2010 (Pub. L. 111–148) as amended by the Health Care and Education Reconciliation Act of 2010 (Pub. L. 111–152)
- The Center for Consumer Information & Insurance Oversight
  - <http://www.cms.gov/cciiio/index.html>
- Affordable Care Act Tax Provisions
  - <http://www.irs.gov/uac/Affordable-Care-Act-Tax-Provisions>
- Department of Labor Affordable Care Act
  - <http://www.dol.gov/ebsa/healthreform/>

# Questions

