

Federal Health Care Reform: Implications for the Marketplace

2010 Health Care Reform Symposium

Sponsored by

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Background

- 1974-ERISA
- 1980-Rates
- 1983-Medicare DRGs
- 1985-COBRA
- Mid 80's-Managed Care Concepts
- 1993-Reform Attempt
- 1996-HIPAA
- 2010-Patient Protection and Affordable Care Act(PPACA)



Agenda

- Legislative overview
- What it means for you



Patient Protection and Affordable Care Act

Signed March 23, 2010



Congressional Action on Federal Health Care Reform



3/21/10: House vote on Senate bill

3/21/10: House immediately votes on reconciliation “sidecar”

3/23/10: Final bill signed by President

3/23/10: Senate takes up reconciliation bill; begins 20-hour debate

3/25/10: Senate passes amended reconciliation bill, forcing House vote

3/25/10: House passes amended reconciliation sidecar

3/30/10: Reconciliation bill signed by President

Federal Reform Key Elements

**New
Taxes
and Fees**

**Market
Reforms**

**Individual
Mandate**

**Insurance
Exchanges**

**Employer
Mandate**

Key Elements: New Taxes and Fees

New Taxes and Fees

Effective in 2010:

Annual tanning tax: 10% tax on indoor tanning services (\$2.7 B)

Effective in 2011:

Annual pharmaceutical industry fee: Begins at \$2.5 billion per year (\$27 B)

Effective in 2012:

Annual medical device manufacturer fee: Excise tax of 2.3% on the sale of any taxable medical device (\$20 B)

Effective in 2013:

Annual Medicare tax on high earners, and unearned income: 0.9% increase in payroll tax. Unearned income tax of 3.8% (\$210.2 B)

Effective in 2014:

Annual insurer fee: Applies to fully-insured business (\$60.1 B)

Effective in 2018:

Annual high-cost insurance tax: 40% excise tax on “Cadillac” plans (\$32 B)

Key Elements: Market Reforms

Market Reforms (2014)

- All health insurance products in all markets “guaranteed issue”
- No health status rating; rating factors limited to:
 - Age: 3:1
 - Tobacco: 1.5:1
 - Family size
 - Geography

Small Group (2014+)

- Small Group redefined in most states from group size 2-50 to group size 1-100

Products

- Health insurance products must meet new benefit mandates and at least exhibit a 60% “actuarial value”

Key Elements: Insurance Exchanges

Insurance Exchanges

Effective in 2014:

- Insurance Exchanges will act as a new sales channel beginning in 2014
- Requires states to establish Exchanges for individuals & small employers
- Subsidies for individuals up to 400% of the federal poverty level, only available in exchange
- Small employer tax credits available only in exchange
- Potential role for agents/brokers

Key Elements: Individual Responsibility

Individual Mandate (2014+)

- All U.S. citizens and legal residents required to have coverage
- Penalty phased in
 - \$95 per year in 2014, phasing in to \$695 per year by 2016, or 2.5% of taxable income
 - Exempts low-income individuals

Subsidies (2014+)

- Sliding scale, up to 400% of federal poverty level (\$88,000/year for family of 4)
 - Only available through exchanges

Medicaid (2014+)

- Expanded to 133% FPL in all states
 - Mandatory enrollment under 100% of federal poverty level

Key Elements: Employer Responsibility

“Play or Pay”

Requirement: “Play” (2014+)

Employers with >50 full-time employees (FTEs) must offer minimum coverage:

- Part-time are included on FTE basis in calculating >50 FTE
- Full-time employee averages 30+ hours per week
- No minimum contribution
- Must provide “essential coverage” with 60% actuarial value minimum

Coverage Penalty: “Pay” (2014+)

Employers with >50 full-time employees:

- Not offering coverage and at least one FTE receives tax credit
 - \$2,000 x total number of FTEs (minus first 30 FTEs)
- Offering coverage at least one FTE receives tax credit but actuarial value < 60% or employee cost is > 9.5% of household income
 - Lesser of \$2000 x total FTEs or \$3000 x number of employees receiving tax credit

Key Elements: Other Employer Responsibilities

Free Choice Voucher (2014+)

Employers must provide for use in exchange if:

- Employee premium cost sharing is 8-9.5% of household income (< 400% federal poverty level)

Auto-Enrollment

Employers >200 employees must auto enroll FTE into health plan (employee may opt out)

Treasury Reporting

Employers required to submit annual coverage reports

W-2 Reporting

Must disclose cost of coverage

Early Retiree Reinsurance (2010)

Temporary reinsurance for retirees 55-64

Key Elements: Employer Tax Elements

Small Group Tax Credit (2010+)

Employers < 25 employees and < \$50,000/year average wages contributing > 50% of premium

- 2010-2013: sliding scale credit up to 35% of employer costs (25% if tax exempt)
- 2014+: credit up to 50% of employer costs (35% if tax exempt) for first 2 years; limited to exchange only

Retirees Drug Subsidy (2013+)

Eliminate tax exclusion for Part D subsidy payments

High Cost Plan Excise Tax (2018+)

40% nondeductible tax

- For coverage that costs over \$10,200 individual; \$27,500 family coverage
- Amounts indexed to standard inflation
- Excludes dental and vision

Other Federal Reform Key Elements

Product Framework (actuarial value)	<p>Four tiers based on actuarial value: 60%, 70%, 80%, 90% effective in 2014. Separate policies for “young invincibles.”</p> <p>Cost-sharing limits tied to the HDHP limits. Additionally, small group deductibles may not exceed \$2,000/\$4,000.</p>
Medical Loss Ratio Requirements	<p>In 2011, MLR is set at 85% for large group and 80% for small group and individual markets.</p>
Insurance Rate Review	<p>Beginning in 2010, federal government to establish a process with states to require insurers to justify rate increases</p>
Medicare Advantage	<p>Cuts Medicare Advantage by a total of \$202 billion by freezing benchmarks for one year in 2011 and then reducing benchmarks to different percentages of fee-for-service Medicare spending, with bonuses for quality and enrollee satisfaction. Increases ability to reduce MA plan payments because of plan coding practices.</p>
Administrative Simplification	<p>Requires the Secretary to adopt and regularly update standards, implementation specifications, and operating rules for the electronic exchange and use of health information for the purposes of financial and administrative transactions.</p>

Agenda

- Legislative overview
- What it means for you



Immediate Provisions

Effective for the 2010 tax year:

- Tax credits for certain small employers
- \$250 rebate to Medicare beneficiaries who reach the Part D “donut hole”

Effective 90 days after enactment:

- Temporary high-risk pools and early-retiree reinsurance programs

Effective for plan years starting 6 months after enactment:

- Dependent coverage for adult children up to age 26
- No lifetime coverage limits
- No cost-sharing for preventive services (applies only to individuals not “grandfathered”)



Dependent Coverage for Adult Children Up to Age 26

Who:

- Existing members' dependents who would have lost dependent benefits on or after May 1, 2010, based on their birthday, will now be eligible to continue benefits
- This includes specialty products such as vision, dental and pharmacy
- Exceptions noted below

When:

- Beginning May 1, 2010

Why:

- The extension is designed to fill the coverage gap between June and September 23, 2010, when the dependent care provision in health care reform legislation takes effect

Exceptions:

- Administrative Services Only (ASO), fully or partially self funded accounts with more than 100 lives, and fully insured accounts with more than 100 lives are able to opt out of the extension – we will work with these groups individually to meet their needs




Immediate Provisions

“Grandfathering” of existing members

- Grandfather provision allows existing members to keep their products, except, requires all products renewed after September 23, 2010 to:
 - Allow members to add dependents up to age 26 regardless of student status
 - Eliminate lifetime limits on policies
- For new sales and subscribers who change policies after 3/23/10, we will be required to make additional changes beginning in approximately six months, such as removing any member cost sharing for "preventive" benefits, as defined by the legislation.



Effective Dates of Reform Provisions

<u>2010</u>	<u>2011-2013</u>	<u>2014</u>	<u>2018</u>
<ul style="list-style-type: none"> ▪ Rate justification ▪ New product requirements (dependents to age 26, no lifetime limits, etc.) ▪ Individual market rescission reform ▪ Prohibition on pre-ex exclusion for children ▪ Early retiree reinsurance program ▪ Federal-required high risk pool ▪ Tax credits for small employers ▪ Insurer compensation cap on deductibility of \$500,000 per year ▪ Coverage of recommended preventive services without cost-sharing ▪ Internet comparison shopping tool ▪ Consumer appeal process (inc. ASO) ▪ No benefit differences by employee salary ▪ Grants for states to enhance health insurance ombudsman programs 	<ul style="list-style-type: none"> ▪ Medical loss ratio requirement – 80% for Individual and Small Group; 85% for Large Group beginning in 2011 ▪ Medicare Advantage cuts ▪ Grants for small employer wellness programs ▪ Increased tax on non-qualified medical expenses for Archer Medical Savings Accounts ▪ Quality initiative reporting ▪ Limit FSA contributions to \$2,500 per year ▪ Uniform coverage summaries ▪ Standard terms and conditions ▪ All working adults enrolled in Community Living Assistance Services and Supports (CLASS) long-term care program, unless they opt out 	<ul style="list-style-type: none"> ▪ Individual mandate ▪ Employer mandate ▪ Individual market guarantee issue ▪ Rating reforms for Individual and Small Group ▪ Expands Small Group from 2-50 in most states to 1-100 ▪ Insurance exchanges (with government-run plan), subsidies up to 400% federal poverty level ▪ New product framework ▪ Medicaid expansion ▪ Insurer fee, \$8B, increasing to \$14B in 2018 	<ul style="list-style-type: none"> ▪ High-cost insurance tax – 40% on single coverage over \$10,200 and family coverage over \$27,500
			

What It Means for You:

Implications for our customers

- No immediate changes to benefits, premiums, physician or hospital networks
- Future impacts will vary depending on product type and company size
- Legislation will be phased in over several years, and many provisions require federal agencies to issue more detailed regulations
- Premiums may be impacted in future



What It Means for Large Groups

Effective in 2010:

- New product requirements at renewal after 9/23/10
- Early retiree reinsurance for certain eligible early retirees

Effective in 2011:

- Employees automatically enrolled in Community Living Assistance Services and Supports (CLASS) long-term care program, unless they opt out

Effective in 2013:

- Tax deduction for Medicare Part D retiree drug subsidies eliminated
- Flexible Spending Account (FSA) contributions limited to \$2,500 per year

Effective in 2014:

- Employer mandate (with auto-enrollment)
- Products must meet new requirements, 60% actuarial value
- Health Insurance Exchange vouchers required for some employees

Effective in 2018:

- High-cost insurance tax – 40% on Single coverage over \$10,200 and family coverage over \$27,500



What It Means for Small Groups

Effective in 2010:

- New product requirements for renewals after 9/23/10
- Tax credits for certain employers

Effective in 2011:

- Grants for wellness programs
- Employees automatically enrolled in Community Living Assistance Services and Supports (CLASS) long-term care program, unless they opt out

Effective in 2013:

- Limits Flexible Spending Account (FSA) contributions to \$2,500 per year

Effective in 2014:

- Elimination of premium rate variables may result in a significant premium increase or reduction
- New product requirements, prohibition on deductibles over \$2,000/\$4,000
- Health insurance exchange as new sales channel
- New taxes built into premium costs

Effective in 2018:

- High-cost insurance tax – 40% on Single coverage over \$10,200 and family coverage over \$27,500



What It Means for Individual Members

Effective in 2010:

- New product requirements for renewals after 9/23/10

Effective in 2014:

- Rating reforms with weak individual mandate will lead to substantial premium increases for many members
- New product requirements with new framework
- Health insurance exchange as new sales channel
- New taxes built into premium costs



What It Means for Senior Members

Effective in 2010:

- \$250 rebate to offset the Part D “donut hole”
 - Coinsurance rate phases down to 25% by 2020

Effective in 2011:

- Reductions to Medicare Advantage program payments, which may result in reduced benefits and/or increase member cost-sharing
- Cost-sharing for preventive services in Medicare eliminated
- Discounts on prescriptions in the Medicare Part D “donut hole” begin to phase in



Some Early Impacts: Employers Facing New Expenses

Major American companies say they will face hundreds of millions of dollars in new health care costs:

- AT&T (\$1 billion charge in 2010)
- Deere & Company (\$150 million charge in 2010)
- Caterpillar (\$100 million charge in 2010)
- 3M Company (\$85-90 million charge in 2010)



Some Early Impacts: Legal Challenges

The legislation faced immediate legal challenges from several parties:

- At least 21 states
- Association of American Physicians and Surgeons (AAPS)
- New Jersey Physicians Inc.



Source: FierceHealthcare news, March 30, 2010

Implementation Communications

- Numerous teams are working on implementing the various provisions with 2010 and 2011 implementation dates
- We will be sending communications to employers, individuals, and brokers about upcoming changes

Questions???