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Healthcare Reform
Implications for Employers

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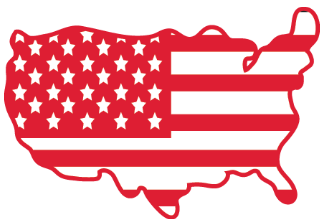
Welcome and Introductions

Health Care Reform is a transformative event - it will fundamentally change the way health care is paid for, delivered and consumed in the U.S. over the next 20 to 30 years, and it will affect:

Every employer



Every person residing in the U.S.

Every health care provider

Every pharmacy benefits management provider and every pharmaceutical company

Every medical device manufacturer

Understanding the Affordable Care Act (ACA) Is Extremely Complex

Health Care Reform is a jigsaw puzzle that is difficult to comprehend and put together, because:

1. No one has all the pieces and
2. Some pieces don't fit

Managing shared responsibility requirements will need an integrated approach to workforce planning and administration

*This feature is scheduled to become available January 2014.

Agenda

- What is the individual mandate?
- What companies are applicable large employers?
- Who must be offered coverage?
- What is affordable coverage?
- What are the penalties?
- Strategic options

Individual Mandate

Individual mandate to obtain coverage

- Penalty for individual not carrying coverage is greater of $100 or 1% of income in 2014.
- Phases in up to greater of $695 or 2.5% of income by 2016
- Unaffordability exceptions apply
- Expectation is that many individuals may remain uninsured

Who is a "Large" Employer?

ACA applies to "large" employers

- Average at least 50 FTEs during the preceding year
  - "Full-time" means 30 hrs/week
  - Includes seasonal employees (potential adjustment)

Who are Employees?

Must count all common law employees

- Temporary employees
- Seasonal employees
- Part-time employees
- Interns
- Co-op employees

Do not need to count:

- Sole proprietors
- Partners
- More than 2% S corporation shareholders

Aggregation Rules Apply

Organizations under common control treated as one company:

- Parent-subsidiaries
- Brother-sister corporations
- Partnerships
- Proprietorships under common control
- Affiliated service groups

Are You a Large Employer?

Example: During each calendar month of 2013, an employer has 20 full-time employees who average at least 30 hours per week, and 40 part-time employees who average 90 hours per month

Total number of Full-Time Employees + Total number of Full-Time equivalent employees (FTEs) = ?

20 + 30 = 50

$(40 \times 90 \div 120)$

Who Must Be Offered Coverage?

- Employees who average at least 30 hours per week
- The employee’s children

Can miss a small percentage/number of employees (but may still pay a penalty)

- Greater of 5% or 5 employees

Hours of Service

Must count:

- Hours while working
- hours entitled to pay:
  - Vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty, or leave of absence

Affordability Requirement

Two components:

- Cost does not exceed 9.5% of employee's household income
  - Note that current National average of employees' household income spent on healthcare coverage is around 4.5% so many employers have room to raise prices if necessary (varies widely on demographics of workforce – i.e. fast food vs. professional services)
- Coverage offers "minimum value"

9.5% of Income Test

- Employee's required contribution for self-only coverage does not exceed 9.5% of the employee's household income
  - Problem: Do not know employee's household income
- Good news: Three safe harbors
  - No penalty—even if employee qualifies for subsidy

W-2 Safe Harbor

Cost is no more than 9.5% of W-2 Box 1 income

Drawbacks:

- After the fact verification
- Box 1 excludes tax-free contributions to 401(k)/403(b) plans and cafeteria plans

Rate of Pay Safe Harbor

Based on rate of pay:

- For hourly employees: cost does not exceed 9.5% of hourly rate of pay x 130 hours
- For salaried employees: use monthly salary

Caution: May not use this method if employer has reduced employee's hourly wage or salary

Federal Poverty Line Safe Harbor

Cost does not exceed 9.5% of Federal poverty line for a single individual

- Use most recently published poverty guidelines as of the first day of the plan year

What is Minimum Value?

Minimum level of benefits—60% of costs

- 3 ways to meet this standard:
  - Minimum value calculator (http://cciio.cms.gov/resources/regulations/index.html#pm)
  - Design-based safe harbors
  - Actuarial certification
- Prior to healthcare reform, the National average actuarial value was around 83% meaning some employers have room to scale down benefits if needed (higher deductibles, co-pays, etc.)

Employer Shared Responsibility

Deciding Whether to Play or Pay in 2015

Play

Continue to offer healthcare coverage to employees and dependents and make certain the coverage is affordable and has minimum value

Pay

Stop providing healthcare coverage and pay a flat, nondeductible penalty for all full-time employees - essentially those working 30 or more hours per week on average

Types of Penalties

Failing to offer coverage to nearly all full-time employees (4980H(a) penalty)

- Based on employer's total number of full-time employees

Penalty for employees who obtained subsidized coverage (4980H(b) penalty)

- Based on number of employees who obtain subsidized coverage

Penalties triggered if employee obtains subsidized coverage through an exchange / marketplace

Failing to Offer Coverage

Penalty amount is the product of:

- Number of full-time employees (reduced by allocable share of 30 employee-reduction*)
- monthly penalty amount—initially set at 1/12 of $2,000

  *30-employee reduction applies to entire controlled group

- Allocate ratably among employers

Having Employees Obtain Subsidized Coverage

Penalty is the product of:

- Number of employees receiving subsidized coverage
- Monthly penalty amount—currently 1/12 of $3000

Limit: Penalty cannot be more than the penalty would be for failure to offer coverage

Employers Need a Strategic Framework to Meet ACA Challenges

- The ACA requires employers to be proactive and strategic – a reactive approach to the ACA will not work.
- Health Care Reform is not only about benefits. It can have far reaching implications across your business and enormous financial consequences.
- Failing to be proactive is potentially disastrous to your bottom line.

Should Employers Play or Pay?

Cost of penalty vs. cost of coverage

- Coverage is tax deductible
- Penalty is NOT tax deductible

Impact on Employees

- Will exchange / marketplace coverage cost more?
- Will employees demand higher pay?

Offering Healthcare

- Towers Watson just reported that 88% of employers affirmed their commitment to offer healthcare benefits for the foreseeable future
- 38% of surveyed employers are considering or plan to reduce dependent coverage
- 55% plan to increase the employee cost-share
- Nearly 60% offering retiree benefits will drop them when the exchanges become operational

Results of Willis Survey

- More than ½ of employers believe that other similar employers will pass more of the cost of dependent coverage to employees
- 1/3 believe that similar employers will reduce coverage to lowest-cost package that will avoid “pay or play” penalty
- Majority believe wellness programs will expand in scope
- 2/3 believe employers expect to increase employee contributions

Key Financial Considerations - for Employers

- Scope of potential additions to group plan – how many of your current employees are ineligible or waive coverage?
- Income of workforce – if you have relatively few employees under 400% of Federal poverty line, not many will qualify for State exchange subsidy and there may be room to increase employee cost sharing
- Actuarial values of current plan designs and employer subsidization levels – if plan is relatively rich, you may look at scaling back benefit levels or increasing deductibles and co-pays if needed to remain competitive

What To Do

- Are you subject to play or pay?
- Determine whether to play or pay
  - Plan design changes
  - Cost of providing vs. cost of penalties

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