



Health Care Reform

Navigating the New Healthcare Legislation for Public Entity Employers and Pools

Association of Governmental Risk Pools

March 23, 2010

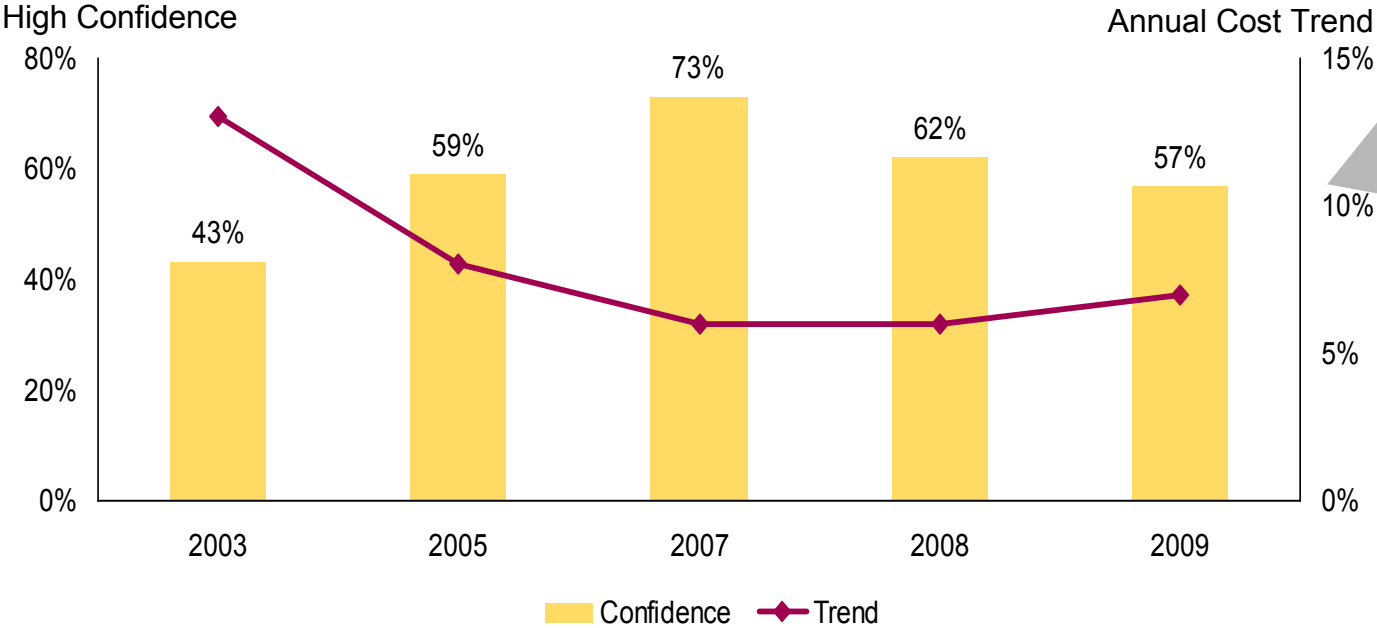
TOWERS WATSON 

Today's discussion

- Health care reform — and employers' reaction to it
- The big picture
- Employer and employee mandates and costs
- Year-by-year changes
- Considerations for thinking ahead

Employer and Employee View Impact of Health Care Reform

Employers less confident they will offer health care benefits a decade from now



Today, 57% of employers are very confident they will offer health care benefits 10 years from now—a lower level of confidence than in 2005, when medical cost inflation was higher.

15th Annual National Business Group on Health/Towers Watson Employer Survey on Purchasing Value in Health Care

Note: High Confidence represents responses of “Very confident.”

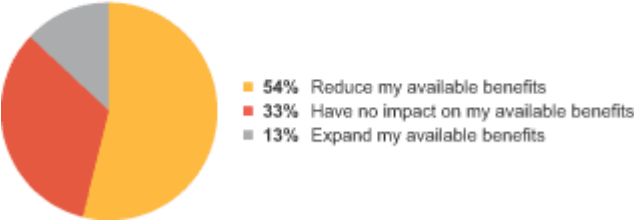
Impact of health care reform on companies' health care programs

	LARGE DECREASE	MODERATE DECREASE	NO CHANGE	MODERATE INCREASE	LARGE INCREASE	DO NOT KNOW
Overall costs of your health care program	1%	1%	10%	43%	26%	20%
Number of employees your plan covers	1%	10%	45%	22%	8%	14%
Generosity/value of your health care benefits	3%	24%	40%	12%	2%	18%
Overall health of employees enrolled in your plan	2%	9%	58%	8%	1%	22%
Costs of administering your health care plan	1%	2%	12%	45%	24%	16%
Subsidies provided to spouses and dependents	1%	8%	46%	13%	3%	29%
Offering of retiree medical benefits	3%	5%	56%	6%	3%	27%
Adoption/offering of health management programs	1%	2%	57%	13%	2%	25%
Use of incentives to encourage participation in health management programs	1%	4%	48%	19%	3%	25%

15th Annual National Business Group on Health/Towers Watson Employer Survey on Purchasing Value in Health Care

Employee Concerns

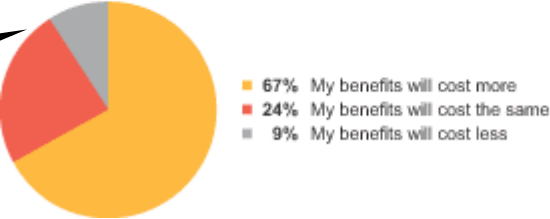
Exhibit 01. What impact do you think health care reform legislation (now being considered in Congress) will have on your health benefits?



“My benefits will be reduced”

Exhibit 02. What impact do you think health care reform legislation (now being considered in Congress) will have on the cost of your health benefits?

“My benefits will cost more”



“My quality of care will be worse”

Exhibit 03. What impact do you think health care reform legislation (now being considered in Congress) will have on the quality of your health care?



*Survey of over 1,000 employees at U.S. companies were polled from a national panel from mid- to late November 2009 for their views on health care reform.

Where do governmental units fall in the Senate bill?

(d) COVERAGE PROVIDED BY GOVERNMENTAL UNITS.---In the case of coverage provided by any governmental unit or any agency or instrumentality thereof, the officer of employee who enters into the agreement to provide such coverage (or the person appropriately designated for the purposes of this section) shall make the returns and statements required by this section. HR 3590, Section 1402, Reporting of Health Insurance Coverage

Reporting

(A) IN GENERAL.---The term ‘applicable large employer’ means, with respect to a calendar year, an employer who employed an average of at least 50 full-time employees on business days during the preceding calendar year. [Exclusions if work-force exceeded 50 on 120 days or fewer for the prior calendar year or if the excess during 120 days was solely attributable to seasonal workers] HR 3590, Section 1513, Shared Responsibility for Employers

Pay or Play

(e) COVERAGE PROVIDED BY GOVERNMENTAL UNITS.---In the case of any applicable large employer which is a governmental unit or any agency or instrumentality thereof, the person appropriately designated for purposes of this section shall make the returns and statements required by this section. HR 3590, Section 1514, Reporting on Employer Health Insurance Coverage

Reporting

(E) GOVERNMENTAL PLANS INCLUDED.---Applicable employer-sponsored plans shall include coverage under any group health plan established and maintained primarily for its civilian employees by the Government of the United States, by the government of any State or political subdivision thereof, or by any agency or instrumentality of such government. HR 3590, Section 9001, Excise Tax on High Cost Employer Sponsored Health Coverage

Excise Tax

Note: There is language that can defer some aspects of the bill for collective bargaining agreements that were in place prior to enactment (to the expiration of the agreement). Because the bulk of the changes in the law are several years out, they may often go beyond the expiration of a current agreement.

Health Reform: The big picture

The math of health reform

SENATE BILL (HR 3590: PATIENT PROTECTION AND
AFFORDABLE CARE ACT)

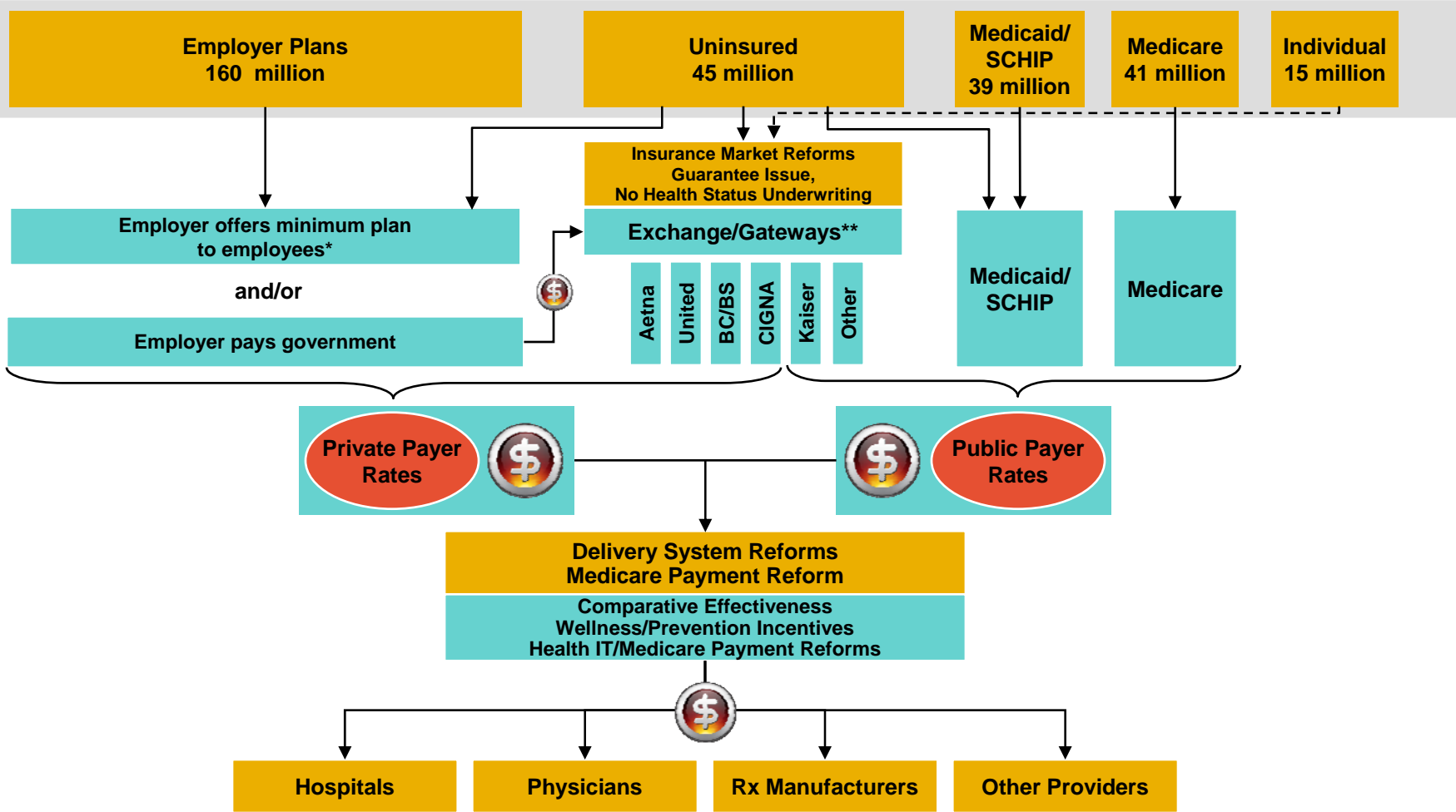
+

RECONCILIATION BILL (HR 4872: THE HOUSE
RECONCILIATION ACT)

=

FINAL HEALTH REFORM LAW

Reformed health coverage system



■ Source: U.S. Census Bureau. Does not depict 15 million now with individual insurance expected to move to Exchange or other sources.
 * Employees may decline employer’s plan in favor of Exchange-based coverage, but they may obtain federal premium subsidies for Exchange-based coverage only if employer coverage does not meet minimum requirements or, is ‘unaffordable’.
 ** Low- and middle-income premium subsidies expected; e.g., perhaps up to 400% of federal poverty level.

Health Care Reform includes many revenue raisers

Senate Bill: Select Provisions Affecting Employers ¹¹	2010–2019 Savings/ Revenue	Potential Employer Impact
Reduced provider payments under Medicare, Medicaid, SCHIP	\$ 436B	Cost shifting to employers and other private payers
Employer/insurer direct costs <ul style="list-style-type: none"> • 40% excise tax on insurers' and employers' high-cost health plans (nondeductible) • Free-rider assessment on noncompliant employers 	\$ 177B	Employer limits health benefits or pays excise tax; excise tax and free-rider assessment impact total rewards strategy
New assessments on the health industry <ul style="list-style-type: none"> Annual tax for comparative effectiveness research Annual assessments on health insurers, pharmaceutical manufacturers, medical device manufacturers 	\$ 104B	Pass-through items; new expenses for employers and other payers
Eliminate tax-favored reimbursements <ul style="list-style-type: none"> • Eliminate tax-free status of employer retiree drug subsidy (RDS) payments • Limit health FSAs to \$2,500 annual maximum • Prohibit over-the-counter medicine reimbursements from FSAs/HRAs/HSAs 	\$ 25B	Reduced employer and employee tax benefits
Total of select provisions over 10 years	\$ 742B	If fully absorbed by employers, could add 3%–10% to prevailing costs

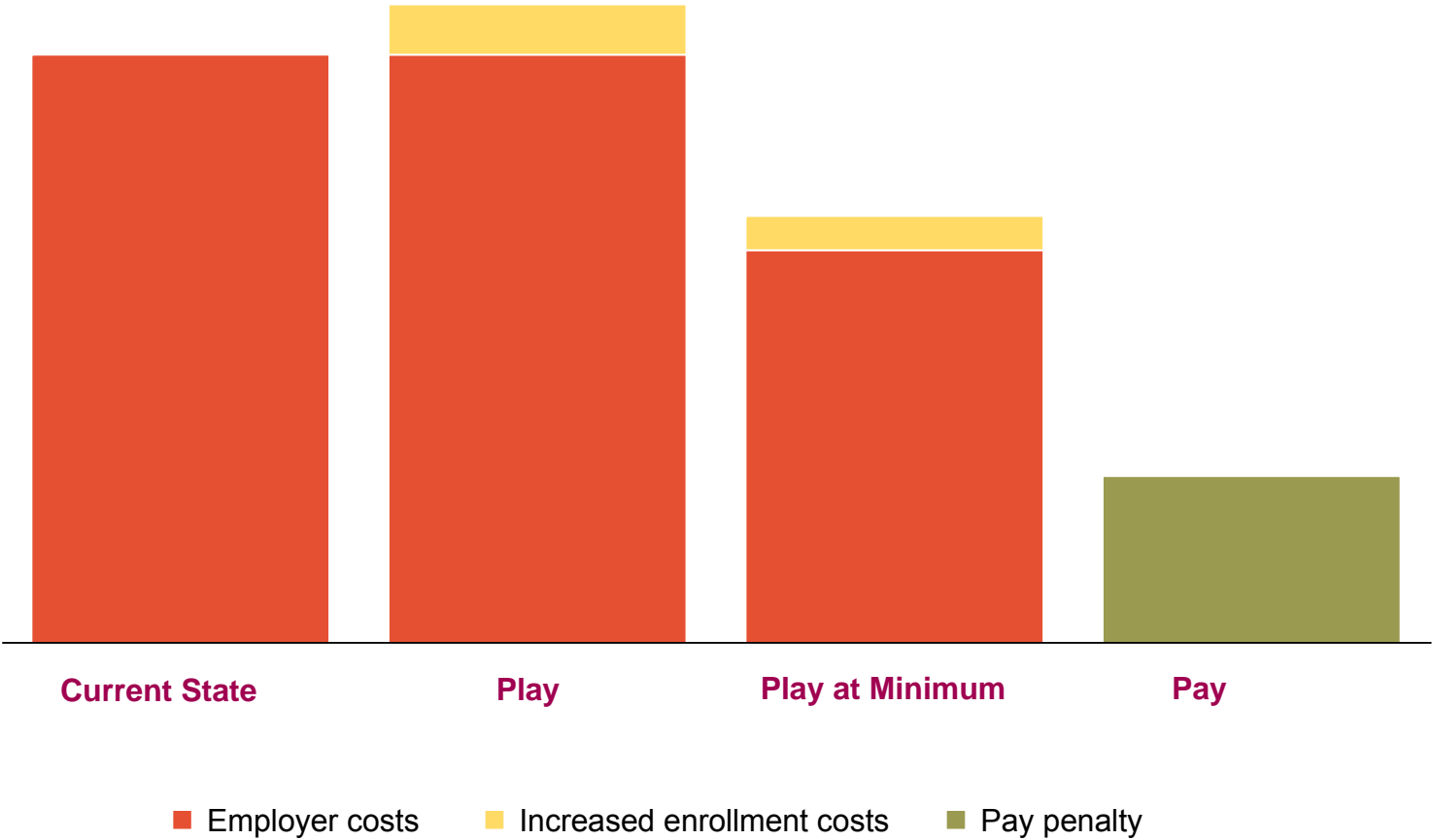
Employers are faced with critical decisions

- Should I still sponsor my own health care plan?
 - Will risk pools lose member employers who leave plan sponsorship role?
 - Will sponsorship change between full-time and part-time employees?
- What new administrative burdens will be placed on my organization?
 - What can be handled by the pool?
- How will reform impact my health costs and when?
- How can I keep costs down below the new tax on “high cost” health plans?
 - What is the final effective date for such a provision?
 - How is the risk pool rating member entities? Should COBRA rates be restructured?
 - Would employers with better ‘risk characteristics’ be more likely to leave a pool that triggers a tax?
 - If so, what impact might that have on future claim loss ratios?
- What should I do about retirees?

Financial impact of pay or play decisions

Illustrative

Senate HR 3590



Where Congress was headed “Pay” option impact on employee and employer

Employee

- Some employees get a government subsidy
 - For most, much less than their current employer’s subsidy
 - Depends on family income, not one individual’s earnings
- While the impact varies among employees, this could be a substantial reduction (up to \$15-\$20K) in compensation (and it’s tax free) to employees

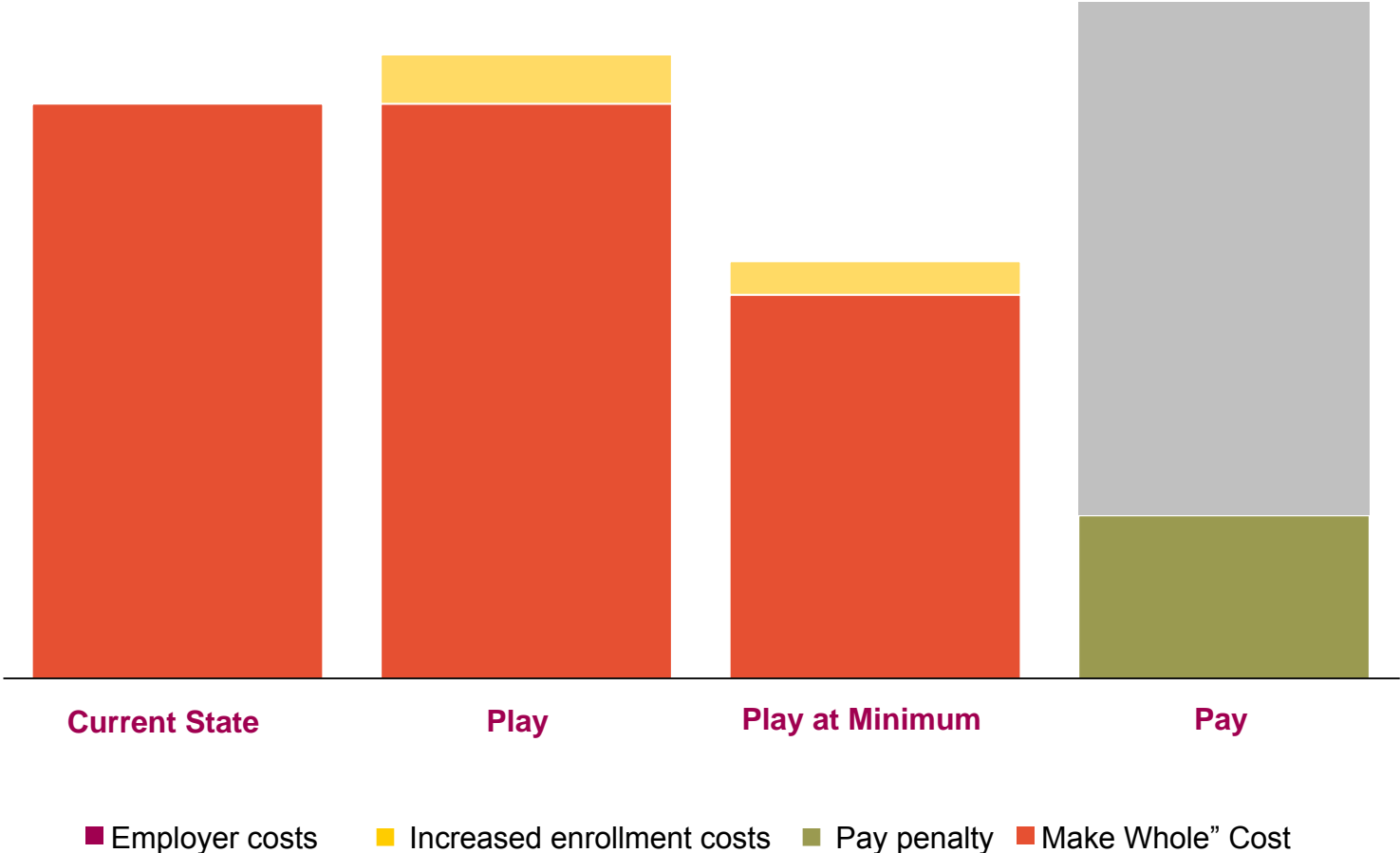
Employer

- The Pay penalty is much less than most employers pay now (employer costs usually average \$5,000 to \$10,000 FTE annually)
- However, since this could mean substantial loss by an employee, some additional compensation may be necessary to make the employee “whole” — in full or in part
 - For example, if an employee receives \$9000 in subsidized coverage today, it might cost \$12,000 to receive it through an individual policy in an Exchange.
 - If the individual’s marginal tax rate is 30%, the employer might have to ‘gross up’ pay by about \$17,000 to restore the employee to their current net pay level.

“Make whole” is expensive!

Illustrative

Senate HR 3590



Employer and employee 'mandates' and costs

What does HR 3590 say: A large employer perspective:

- Penalties to encourage employers to offer minimum essential coverage to all full-time employees (generally defined as 30 hours per week)
 - Employers who do not offer minimum essential coverage are subject to penalties if any full-time employees receive a subsidy through a Health Exchange
 - Waiting periods may not exceed 90 days
- Large employers are required (a) to automatically enroll new full-time employees and (b) to continue enrollment of currently enrolled employees
 - Large employers do not have to automatically enroll employees who are waiving coverage immediately prior to the beginning of the plan year
- If an employer offers coverage and an employee purchases coverage through an Exchange and receives premium tax credit and/or cost sharing subsidy, the Exchange will assess a \$3000 annual nondeductible penalty against the large employer
 - Or \$2000 per FTE, if less

What does HR 3590 say: A large employer perspective:

- W-2 reporting on the value of health coverage
- Report on costs of coverage, essential coverage requirement status, each enrolled person et al.
- Communications on availability of Health Exchanges to employees
- Excise tax on high cost health plans
- Comparative research funding for insured and self funded plans

HR 3590: How will health reform look to an employee of a large employer?

- Mandates to have minimum essential coverage (this is a defined term in the bill) in place for each month *after* December 2013 or face potential tax penalties — exemptions are provided but are limited
 - \$95 per adult tax penalty on an annual basis (up to \$285 per family) in 2014 or 1% of income, if greater
 - \$325 per adult annually (up to \$975 per family) in 2015 or 2% of income, if greater
 - \$695 per adult annually (up to \$2,085 per family) in 2016 or 2.5% of income, if greater (indexed thereafter)
- New full-time hires and current full-time enrolled employees will be automatically enrolled into a plan by the employer
 - These employees may elect to ‘opt out’ of the plan (because they have other coverage, prefer to pay the tax penalty and go without coverage, or believe they are entitled to lower-cost coverage through a Health Exchange)
 - Currently waiving employees may enroll in the plan sponsor plan or continue waiving coverage — would be subject to potential tax penalties

HR 3590: How will health reform look to an employee of a large employer

- Some employees and/or dependents of a large employer (those between 100% and 400% of the federal poverty limit in household income) may be able to enroll in a state Health Exchange where they reside and obtain premium tax credits or cost sharing subsidies if the employer-sponsored plan:
 - Does not provide essential health coverage as defined by the Bill, or
 - Is not expected to reimburse at least 60% of eligible charges (determined on an actuarial basis annually), or
 - Is not considered affordable to the individual (plan contribution for coverage exceeds 9.8% of an employee's modified adjusted household income)
- Any full-time employee with a plan contribution between 8% and 9.8% of family income (with incomes less than 400% of the FPL) and whose employer offers minimum essential coverage can take their *employer* contribution toward health care as a free choice voucher and purchase non-employer sponsored coverage through a Health Exchange
 - The Exchange will determine if an employee meets the 8%-9.8% criteria
 - Employer can use age adjustment in calculating its voucher amount.
 - There is no penalty for the employer in this situation

HR 3590: What elements of health care reform are the most likely to impact costs

Items that may increase plan sponsor costs

- Systemic costs
 - Insurers, drug manufacturers, device makers, and others will have additional taxes or assessments levied, which is expected to increase the price of their services/products to plan sponsor (starting in 2010)
 - Potential cuts in reimbursement to providers through government programs may lead to cost-shifting to the private sector through higher rates for hospitals, physicians and/or prescription drugs
 - Charges on self funded and insured plans to fund the cost of national comparative effectiveness research (2013)
- People costs (2014)
 - Direct costs for covering more individuals through plan sponsor plans
 - Penalties assessed by a local state Exchange if a plan sponsor employee or dependent qualified for and enrolled in a subsidized Exchange plan because the plan sponsor plan does not meet essential coverage guidelines or because it is considered not affordable
- Potential excise tax (2018)
 - HR 4872 contains a 40% nondeductible excise tax for total health costs over a fixed dollar threshold
 - Includes medical but not dental and vision
 - Calculated on a monthly basis
- Administration
 - It will take more time for plan sponsor and its administrators to deal with the people costs, provide required reporting, interface with individual state exchange programs, and track the excise tax

Items that may reduce plan sponsor costs

- Greater use of electronic medical records to lower the cost of administration and improve care
- Coverage of more individuals so that medical providers will have a reduced cost for uncompensated care (with subsequent *possible* favorable impact on reimbursement rates for commercial payers)
- Comparative effectiveness research to improve quality and use of evidence-based guidelines
- Retiree reimbursement is a short-term program to partially offset employer costs for non-Medicare retiree claims
 - Some employers may discontinue retiree coverage and allow them to purchase coverage through a Health Exchange

Projected change in costs for the Senate bill (using current 2010 plan sponsor enrollment and costs)

Category	Annual Cost
Current projected net medical cost for 2010	\$
Towers Watson national estimate of impact of systemic costs	\$
Projected cost for estimated number of current employees who waive coverage through plan sponsor that will now enroll	\$
Cost of the excise tax	\$
Cost if current enrolled employees add dependents to the plan	\$
Estimated tax penalties from Health Exchanges	\$
Other costs	\$
Potential Change in costs	\$

Year-by-year changes

2010

- Early retiree reinsurance program (HR 3590)
 - Temporary reinsurance program to reimburse employer plans for 80% of the cost for retirees age 55 through 64 who have claims in excess of \$15,000 and below \$90,000.
 - Program ends in 2014 or when the \$5B funding is exhausted (latter should occur first).
 - Begins 90 days after enactment
- Medicare prescription drug donut hole
 - Beginning in 2010, allow a \$250 rebate to Medicare beneficiaries that reach the donut hole
 - Reduces donut hole in subsequent years until it reaches the standard 25% beneficiary cost share by 2020

2011

- Beginning for the plan year coinciding with or next following 6 months after enactment:
 - Coverage to children up to age 26 (regardless of whether they are a tax dependent) if they are not eligible for another employer's health plan (this last requirement is waived beginning in 2014)
 - May not impose lifetime limits and only "restricted" annual limits (no annual limits beginning in 2014)
 - May not impose preexisting condition limits for children under 19; no limits for any individual beginning in 2014
 - Insured plans must satisfy nondiscrimination requirements of IRC 105(h)
- No reimbursement of over-the-counter medicines under HRAs, HSAs, and FSAs unless obtained with a prescription
- Tax penalty for withdrawals from HSAs increases to 20% unless for qualified medical expenses
- Medicare D requires a 50% discount to Part D beneficiaries on brand-name drugs and biologics in the donut hole gap

2011

- Modify payments to Medicare Advantage plans over a three-year period
- Means testing for Part D premiums (\$85,000 individual, \$170,000 couple)
- Employers are required to disclose the value of an individual's health coverage on the W-2 for 2011
- Impose annual fees on pharmaceutical manufacturers

2013

- Reduce tax deduction to the extent an employer's drug expenses are reimbursed under RDS
- Broaden Medicare Hospital Insurance (HI) tax base
 - Additional 0.9% employee (not employer) tax on wages in excess of \$200,000 single or \$250,000 joint return
 - For employers with taxable income in excess of \$200,000 single or \$250,000 joint return, additional 3.8% tax on the lesser of net investment income or the amount, if any, by which their modified AGI exceeds the dollar thresholds
- Limit pretax salary reductions to a Health FSA capped at \$2500, indexed to the CPI
- Excise tax of 2.3% on the sale of medical devices (certain exceptions apply)
- Raise the itemized deduction limit from 7.5% of AGI to 10% (deferred to 2017 for those 65 and over)
- Provide existing employees with a notice on Health Exchanges, whether employer's plan meets minimum coverage requirements, and how to access information regarding premium subsidies for Exchange-based coverage

2014

- Employer “pay or play” responsibility
- Employer free choice vouchers
- Total financial incentives allowed for wellness programs increases from 20% to 30% of plan costs
 - Legislation gives regulators the discretion to allow an increase in incentives up to 50% of the cost of coverage if it is deemed to be appropriate
- Employers required to report annually on
 - Whether they offer minimum essential coverage to their full-time employees and their dependents
 - The length of any applicable waiting period
 - The lowest-cost option in each enrollment category under the plan
 - Employer’s share of the total allowed costs of benefits provided under the plan
 - Total number and names of full-time employees receiving health coverage
- Automatic enrollment for full-time employees
- Provide new employees with a notice on Health Exchanges

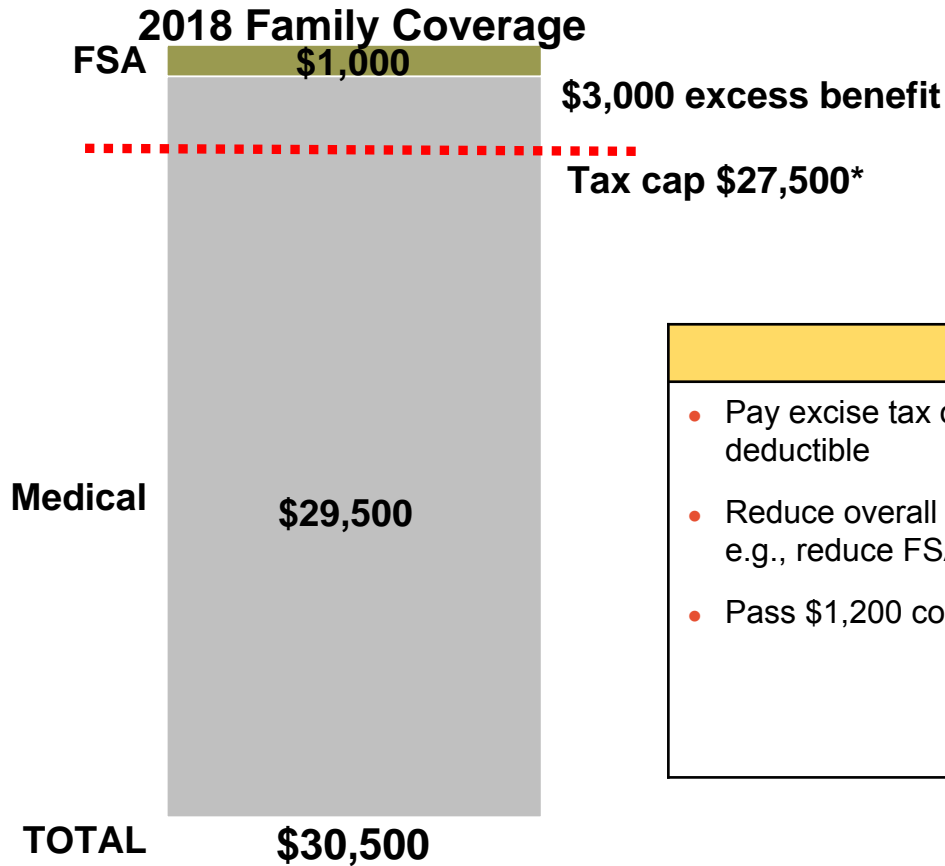
2014

- New fees on health insurers based on market share of net written premiums
- Individual health coverage mandate
- Insurance market reforms requiring coverage to be offered on a guaranteed available and renewable basis with no health status underwriting, and limits on permissible rating bands (e.g., how much age-banded coverage for an older individual cost compared to a younger individual for the same plan)
- States are required to establish an insurance exchange to facilitate offering and purchase of health coverage
- Federal premium subsidies for low- and middle-income individuals
 - Employees offered minimum essential coverage by an employer would be eligible for government subsidies only for Exchange-based coverage and only if the employee's required contribution for the employer plan exceeds 9.5% of the employee's household income
 - Free choice voucher for those whose employer plan contribution falls between 8% and 9.8% of household income (and whose annual household income is not greater than 400% of the Federal Poverty Limit)
- National Medicaid eligibility expansion to 133% of the federal poverty level

2018

- Excise tax on high-cost health plans
 - 40% nondeductible excise tax
 - Threshold of \$10,200 single and \$27,500 for family coverage
 - Retirees and high-risk professions would have thresholds of \$11,850 single and \$30,950 family
 - Thresholds include HRA, FSA, employee pre-tax deductions, HSA contributions
 - Higher thresholds also apply to employers whose health care costs are higher due to the age or gender of their workers
 - If health costs increase more rapidly than projected by 2018, an additional adjustment to the thresholds will also be permitted (using federal employees' health benefit plan Blue Cross Blue Shield standard option as an index)

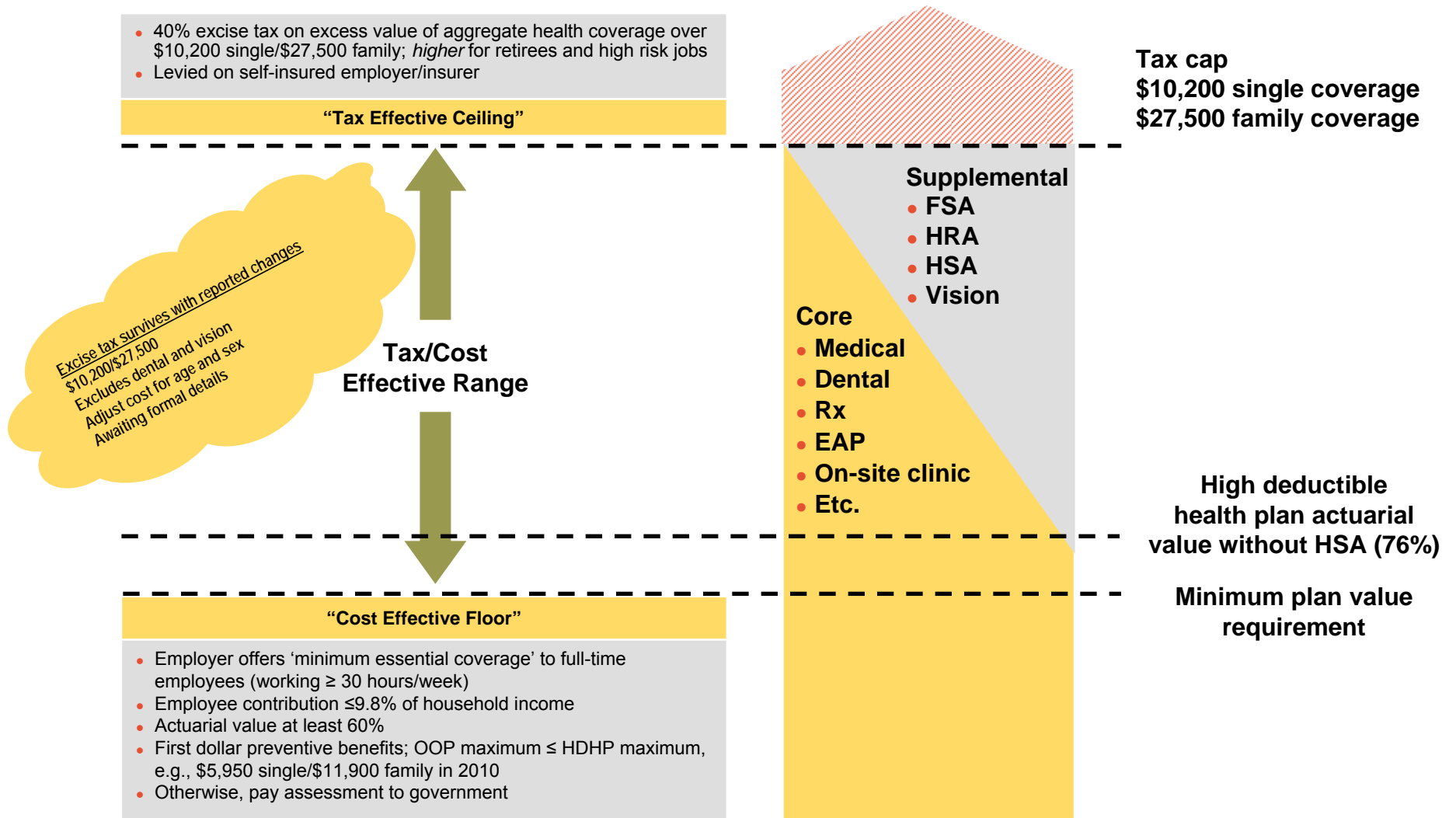
Excise tax under HR 4872



*Excise tax survives with reported changes \$10,200/\$27,500
Excludes dental and vision
Higher limits for retirees and high risk occupations*

Employer Options
<ul style="list-style-type: none"> • Pay excise tax of \$1,200 ($\\$3,000 \times 40\%$), which is non-deductible • Reduce overall value of health benefits offered by \$3,000, e.g., reduce FSA elections, reduce medical plan value • Pass \$1,200 cost of excise tax along to employee

Where Congress was headed “New Normal” for employers under Senate bill



Considerations for thinking ahead

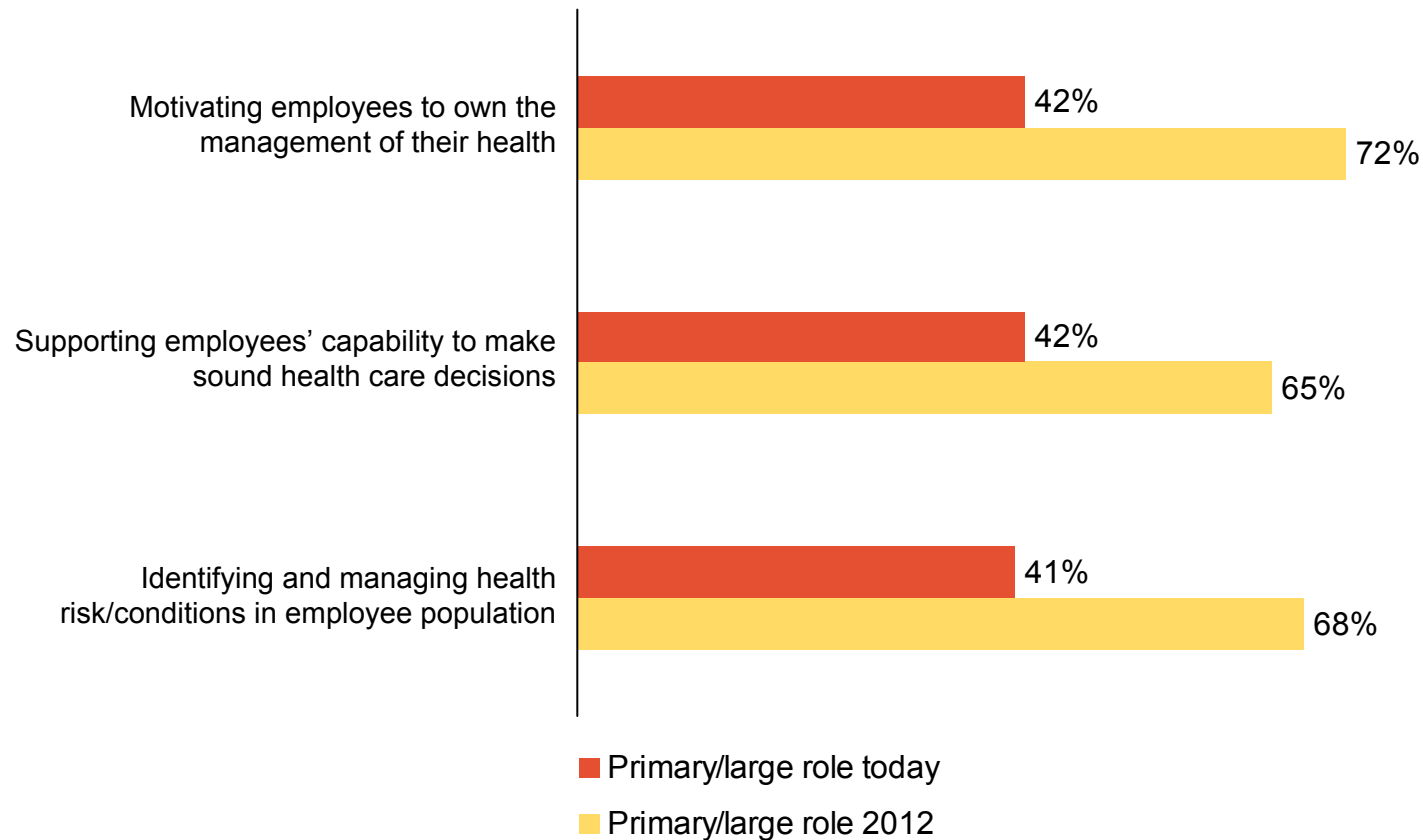
Considerations for thinking ahead

- Health care reform will continue to unfold over the next few years.

Do	Don't
Do identify the immediate actions that are necessary to 'manage' health reform for your organization (e.g., how to obtain federal reinsurance payments for retiree medical)	Stop managing health plans – including managing the health of the pool members
Be prepared to inform your board members on the impact of the bill	Make immediate changes for items that are several years away
Stay in touch with your employer members of the risk pool	Ignore employee concerns about the impact of reform
Begin preparations for 2011 changes	Ignore the topic

The evolving role of the employer: Today vs. 2012

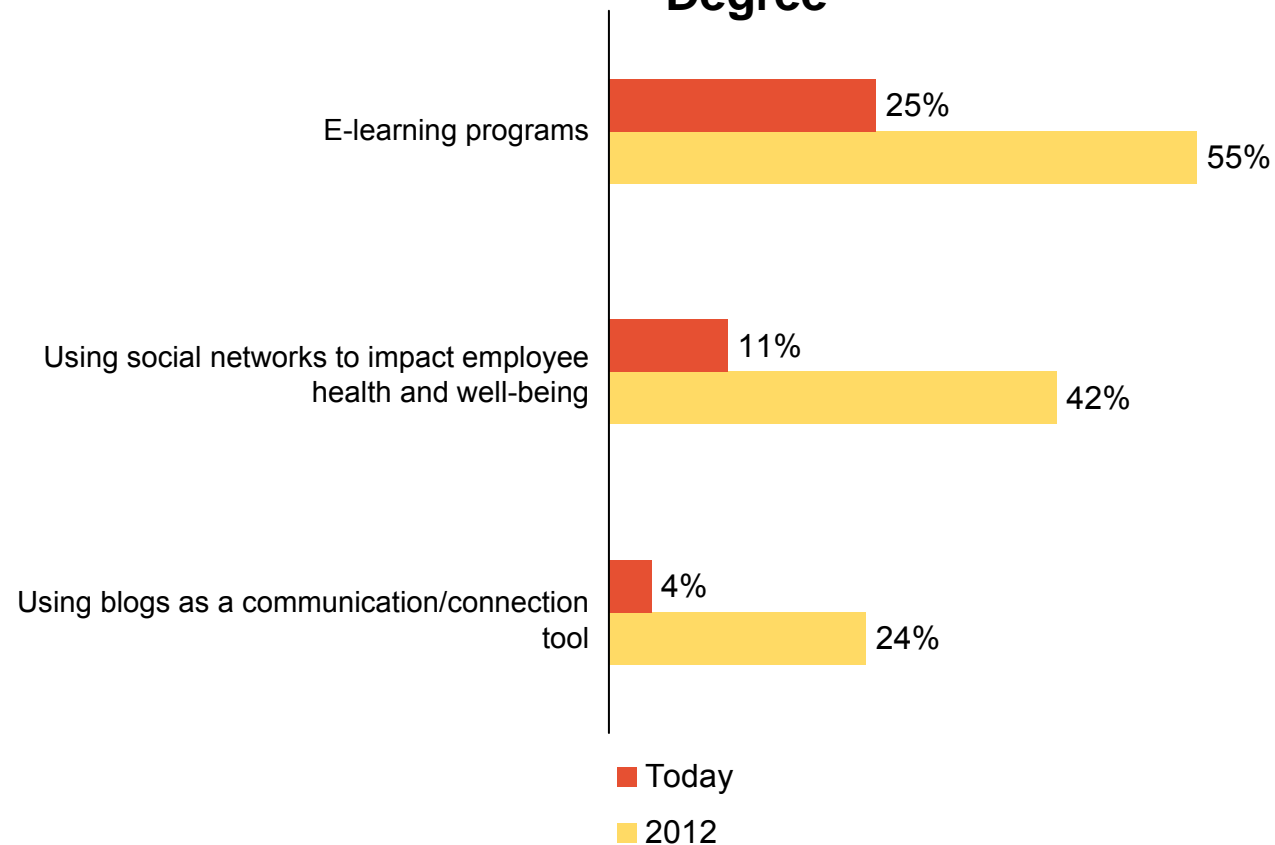
Percent Responding Primary/Large Role



Source: Towers Watson 2010 Health Care Cost Survey.
towerswatson.com

Trends in consumer engagement: High performers set new directions

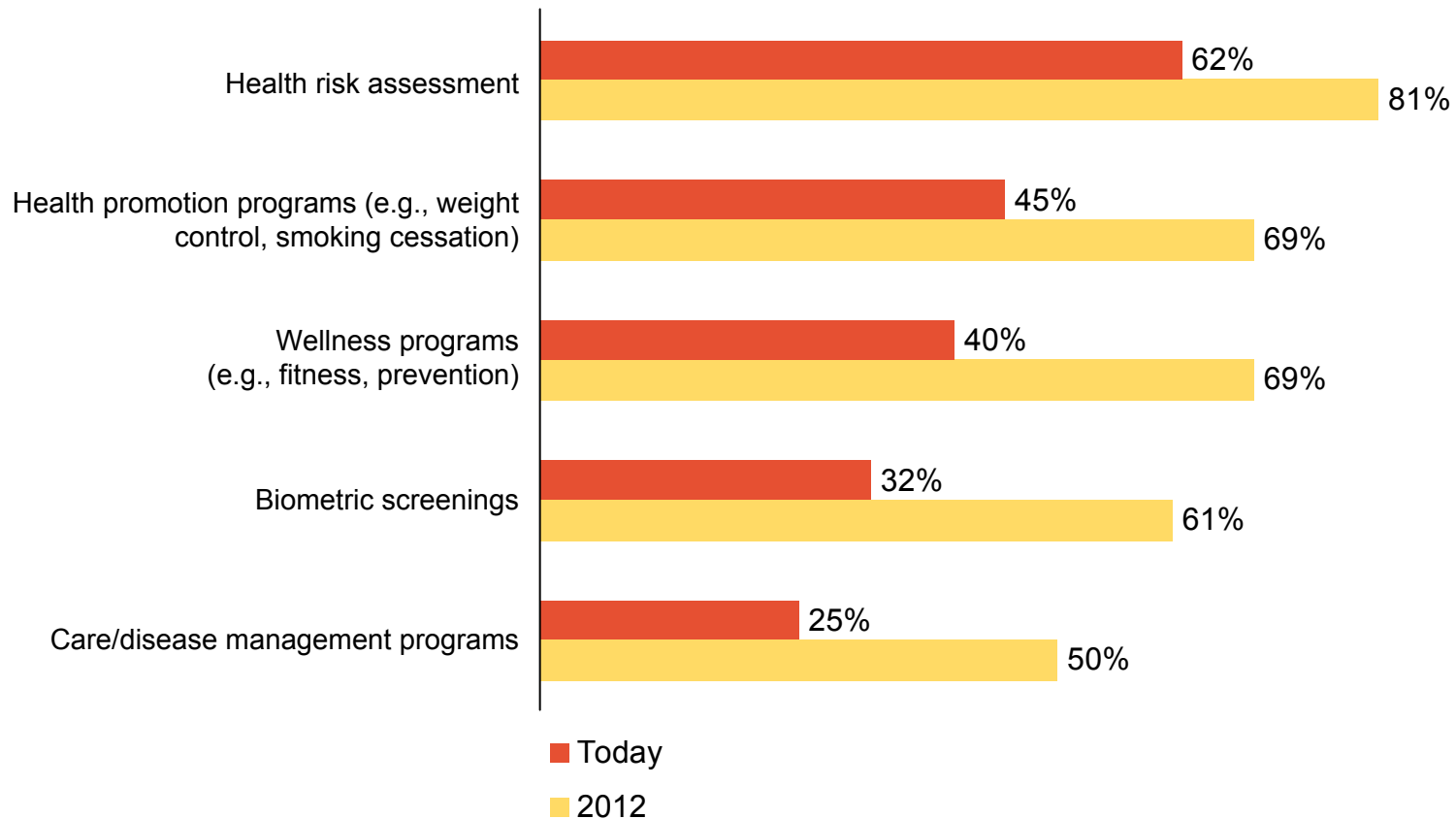
Percent High Performers Responding Doing/Will Do to a Great/Moderate Degree



Source: Towers Watson 2010 Health Care Cost Survey.
towerswatson.com

High performers envision expanded use of incentives

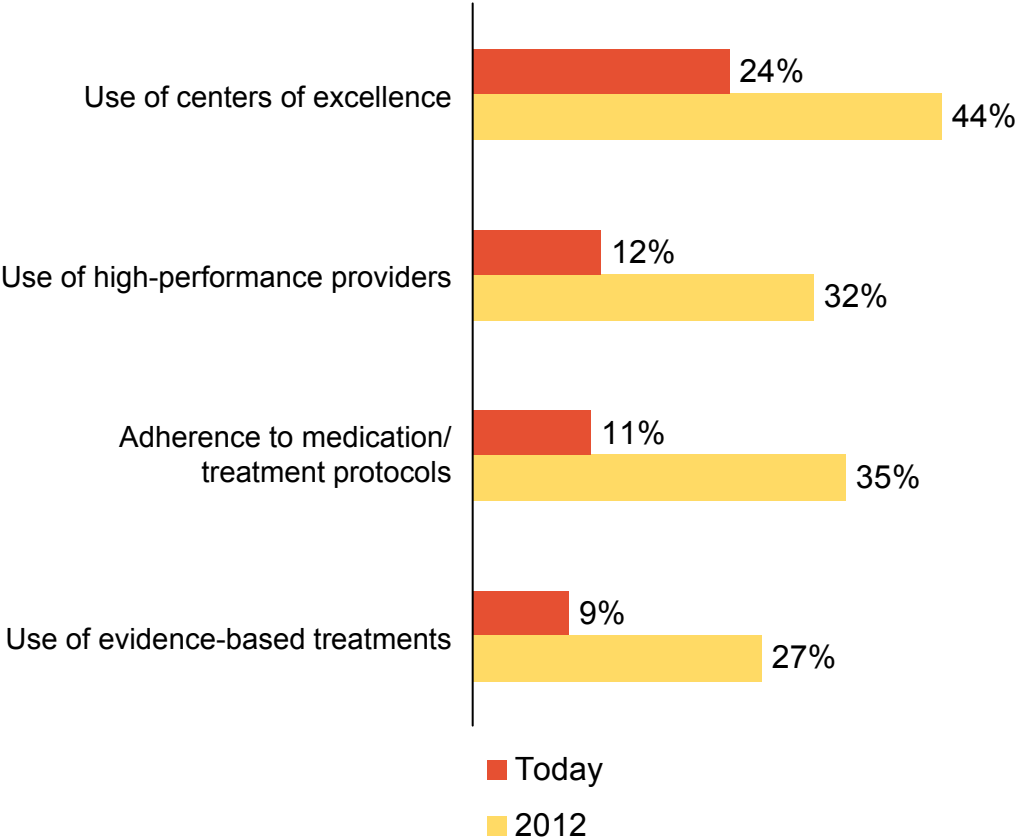
Percent High Performers Using/Will Use Incentives for These Activities/Programs Today/2012



Source: Towers Watson 2010 Health Care Cost Survey.
towerswatson.com

Emerging trends in employee incentives

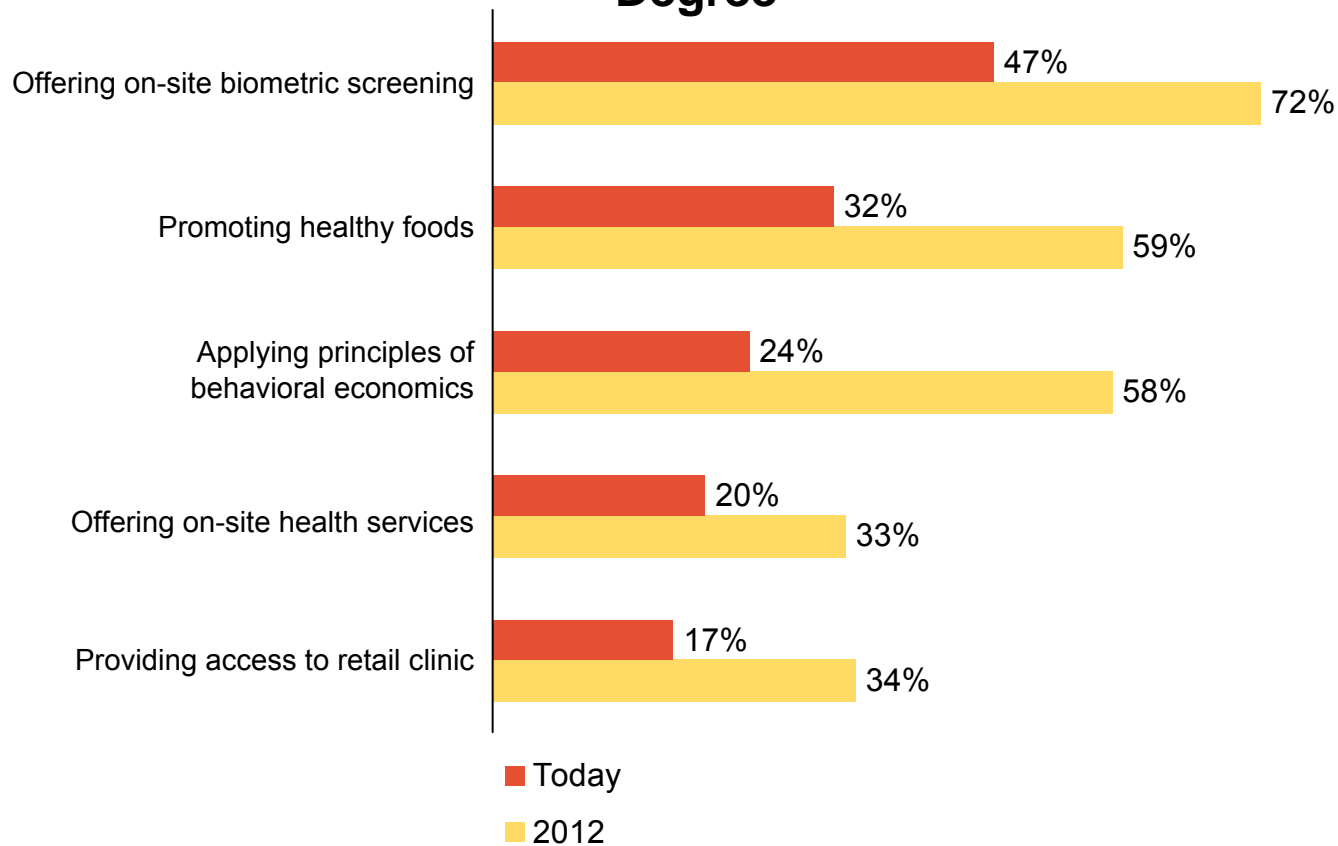
Percent High Performers Using/Will Use Incentives for These Activities/Programs Today/2012



Source: Towers Watson 2010 Health Care Cost Survey.
towerswatson.com

Influencing employee behavior: High performers make good decisions easy and comfortable

Percent High Performers Responding Doing/Will Do to a Great/Moderate Degree



Source: Towers Watson 2010 Health Care Cost Survey.
towerswatson.com

Final questions or thoughts