

Health Care Reform 101 for



June 3, 2013

Requirements: Pre-HCR vs. Post-HCR

	Now	Future
Offering/Maintaining Health Insurance	<ul style="list-style-type: none"> ▪ Employers – Voluntary system ▪ Individuals – No requirement 	<ul style="list-style-type: none"> ▪ Employers – Pay or Play ▪ Individuals – Obtain insurance or pay tax penalty
Individual Insurance	<ul style="list-style-type: none"> ▪ Difficult to obtain ▪ Medical Underwriting, Pre-ex 	<ul style="list-style-type: none"> ▪ Easy to obtain ▪ Guaranteed Issue ▪ Federal subsidies/credits
Low Wage Earners	<ul style="list-style-type: none"> ▪ Often Uninsured ▪ Dependent on ER's Level of Subsidy 	<ul style="list-style-type: none"> ▪ Subject to individual mandate ▪ Federal subsidies/credits ▪ Employers fined if plans unaffordable to employees
Insurance Marketplace	<ul style="list-style-type: none"> ▪ Private ▪ Decentralized 	<ul style="list-style-type: none"> ▪ Quasi-public Exchanges ▪ Consolidated
Plan Design	<ul style="list-style-type: none"> ▪ High Flexibility ▪ State Regulated 	<ul style="list-style-type: none"> ▪ Federal market reforms and mandates
Reporting & Disclosure	<ul style="list-style-type: none"> ▪ ERISA requirements 	<ul style="list-style-type: none"> ▪ ERISA ▪ Summary of Benefits & Coverage ▪ Value of coverage on Form W-2 ▪ Exchange Notice to employees ▪ Certification to IRS ▪ Proof of coverage to employees

Preparing for 2014

- Understand the individual mandate & Exchange subsidies
- Understand the employer pay or play requirements
- Evaluate the employee population
 - Are there any employees who do/could average 30+ hours of service/week who are not offered benefits?
 - Are required employee contributions affordable?
 - What % of employees waive coverage & why?
- Evaluate current plan design
 - Does plan provide minimum value?
 - Does plan meet PPACA requirements (no pre-ex, coverage to age 26, no lifetime or annual dollar limits on essential benefits, etc.)?
- Determine the financial impact of pay or play
 - Also consider non-financial implications such as recruiting/retention, employee morale, etc.
- Identify cost mitigation strategies as needed

Individual Mandate

- Effective January 1, 2014
- Most individuals must obtain and maintain health insurance or pay a penalty (tax)

Year	Amount	Floor
2014	1% of income	\$95/\$295 family
2015	2% of income	\$325/\$975 family
2016 & after	2.5% of income	\$695/\$2,085 family

Income defined as household income above the personal exemption and standard deduction amounts.

Exchange Plans

- Health Insurance Exchanges will be:
 - State-based
 - State/federal partnership
 - Operated by the federal government
- Initially for individuals & small employers
- Must include website for “one stop shopping”
- Exchange functions
 - Eligibility – initial & ongoing
 - Including eligibility for Medicaid/CHIP or federal subsidies, via single application
 - Enrollment with the insurance carriers
 - Plan management – approval of plans that can be sold on the Exchange
 - Consumer assistance – to help understand & compare options
 - Financial management
 - Including accounting, auditing & reporting

Exchange Plans Subsidies

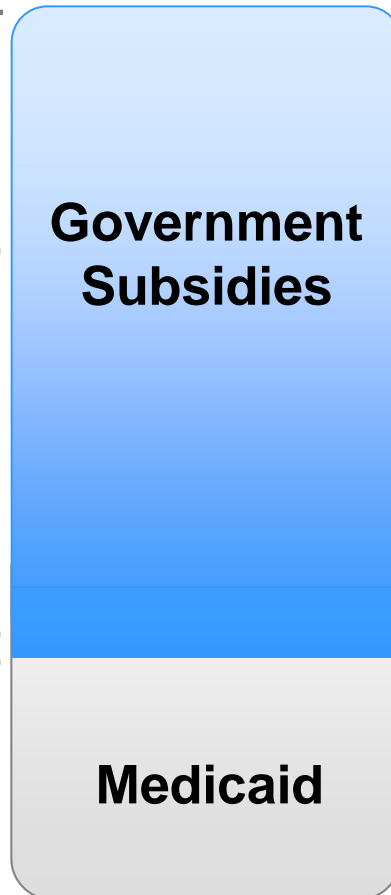
Income

400% FPL =
 Individual: \$46,021
 Family of 4: \$93,701

250% FPL =
 Individual: \$28,763
 Family of 4: \$58,562

134% FPL =
 Individual: \$15,417
 Family of 4: \$31,389

133% FPL =
 Individual: \$15,302
 Family of 4: \$31,155



What They Will Pay

9.5% of Income:
 Individual: \$4,069
 Family of 4: \$8,901

8.05% of Income:
 Individual: \$2,315
 Family of 4: \$4,714

3.06% of Income:
 Individual: \$472
 Family of 4: \$960

In 2014 Dollars

Employer Pay or Play Requirements

- Generally effective 1/1/14
- Applies to employers with 50+ **Full Time Equivalent** employees
 - Determined on control group basis
- Offer coverage to **substantially all FT** employees & their dependents or pay an annual penalty of \$2,000 per FT employee (less 30) if one employee obtains federal subsidy
- If coverage offered is not “**valuable**” and “**affordable,**” pay an annual penalty of \$3,000 per FT employee who obtains federal subsidy (capped at \$2,000 penalty above)
- Employer penalties are not deductible



Major Provisions of Health Care Reform

- Minimum value requirement
 - 60% actuarial value of allowed costs
- Affordability
 - Employee cost for single coverage (lowest cost option) not greater than 9.5% of household income
- Eligibility
 - Offered to at least 95% of full-time employees with 30 or more hours of service per week
 - Includes paid time off
 - Waiting period not greater than 90 days
 - Dependent Children to age 26
- Non-discrimination
 - Cannot disproportionately favor highly compensated employees with respect to contribution or benefits

Affordability Safe Harbors

- If an affordability safe harbor is used, employer will not be subject to \$3,000 penalty for any employee, even if that employee is entitled to federal subsidy
- Three possible safe harbors
 - W-2 wages: Employee's contribution for calendar year cannot exceed 9.5% of Box 1 wages
 - Rate of pay: Employee's contribution for month cannot exceed 9.5% of hourly rate of pay * 130 hours
 - Federal Poverty Line (FPL): Employee's contribution cannot exceed 9.5% of FPL for single individual for applicable calendar year
 - 2013 FPL for single individual is \$11,490 which equates to annual maximum contribution of \$1,092 or monthly maximum contribution of \$90.96
- Can use safe harbors for any reasonable class of employees as long as used on reasonable & consistent basis for all in that class

Analysis

■ Eligibility

- 30 hour requirement
 - **Current eligibility is 40 hours**
 - **Unit paid employees are not offered coverage – Are hours being tracked?**
 - **Are there other employees who are/could work 30+ hours who are not being offered coverage?**
 - Including Variable Hour employees
- 90 day waiting period requirement
 - Currently no waiting period
 - Benefits are effective date of hire
- Dependents
 - Coverage offered to spouses & children to age 26

Analysis

■ Non-discrimination

- Similar to rules already in place for self-insured plans
- IRS is not enforcing until guidance is issued, which is expected later this year
- Plan cannot disproportionately favor highly compensated employees with respect to contribution or benefits
 - Likely includes plan offered & which employees elect the plan, employer contribution levels, waiting periods
- Highly compensated under self-insured plan rules defined as highest paid 25% of all employees
 - Not clear whether same definition will be used
- So, the group of employees getting the “better deal” must be representative of both the highly compensated group & the non-highly compensated group
- Penalty is an excise tax of \$100/day/individual discriminated against applies and the violation must be self-reported

Treatment of Foreign Nationals

- Employer pay or play
 - All hours of service for which an individual receives U. S. source income count as hours of service in determining if the employee works 30+ hours
 - Hours of service are not counted if the compensation for those services constitutes foreign source income under U.S. federal tax rules
- Individual mandate
 - All permanent residents and all foreign nationals who are in the United States long enough during a calendar year to qualify as resident aliens for tax purposes are subject to the mandate
 - Foreign nationals who live in the United States for a short enough period that they do not become resident aliens for federal income tax purposes are not subject to the mandate (even if they file a U.S. income tax return)

Fees/Taxes on Plans & Insurers

- PCORI (Patient-Centered Outcomes Research)
 - Applies to each policy year ending on or after 10/1/12 and before 10/1/19
 - Fee is \$2 (\$1 for policy years ending before October 1, 2013) multiplied by the average number of lives covered under the policy
 - Fee imposed on insurer if fully insured or plan sponsor if self insured
- Transitional Reinsurance Fee
 - Stabilize premiums in the individual market from 2014 to 2016
 - Applies to major medical coverage whether insured or self-funded
 - Estimated rate for 2014 is **\$63/year** (\$5.25/month) per enrollee, including dependents
 - Decreasing in subsequent two years
 - Will be collected annually after the close of the calendar year
- Tax/Fee on health insurers & HMOs
 - Starts at \$8 billion in 2014 and increases thereafter
 - Based on each insurer's share of health insurance premiums
 - Includes dental & vision
 - Does not apply to self-insured plans
 - Estimated to increase premiums by 2% to 2.5% in 2014 and more thereafter

Reporting to the Government

- Annual return to IRS reporting information for each individual to whom coverage is provided and written statement to each individual
 - Insurer will likely be responsible for this if fully-insured
 - Otherwise, plan sponsor will be responsible

- Annual return to IRS by employers subject to pay or play
 - Reporting terms & conditions of coverage
 - Certifying that employer offers FT employees opportunity to enroll in coverage & details of that coverage

- IRS looking for ways to minimize duplication and burden under the various reporting requirements

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