#21 - Should You Provide Health Insurance in 2014? ©

Yes, for all size groups, but only if you can afford it and it serves other purposes (such as controlling competition for employees or you don't want to push good employees into poor exchange plans). If PPACA is not repealed by 2014, here is 'Background' and a 'Game Plan' for survival. Small employers have the advantage under health care reform.

I. If you have a health insurance plan in 2014 (any size group) it must include <u>Minimum Essential Coverages</u> (MEC), which are minimum benefits in general categories with listed items and services within those categories (to be determined by HHS).

A. Essential Benefits may include:

- Ambulatory patient services
- Emergency services
- Hospitalization
- Maternity and newborn care
- Mental health and substance use disorder services, including behavioral health treatment
- Prescription drugs
- Rehabilitative and habilitative services and devices
- Laboratory services
- Preventive and wellness and chronic disease management
- Pediatric services, including oral and vision care.

B. Until HHS issues regulations, there is no way to precisely determine which benefits will be considered "essential" within the listed categories. For purposes of enforcement, until such regulations are issued, the agencies will take into account "good faith" efforts to comply with a reasonable interpretation of "essential health benefits", but a plan must apply this definition consistently.

II. In 2014, all Sizes of Health Insurance Plans, whether Insured or Self Insured, must be at one of Four Standard Actuarial Levels of Health Plans having MEC or Better Benefits (unless you are a small employer). The levels of coverage can be sponsored by an employer or in the Exchange.

Examples of the relative cost of four values varying from a 100% actuarial value plan:

		Average Family Premium*
A. Platinum:	90% of Actuarial Value	$2,041/mo.
B. Gold:	80% of Actuarial Value	$1,814/mo.
C. Silver:	70% of Actuarial Value	$1,588/mo.
D. Bronze:	60% of Actuarial Value	$1,361/mo.

* Premiums will be much higher by 2014 and these are only examples.

III. Fulltime Employee Definition – Small and Large Employers

A. Fulltime Employees include those working 30+ hours per week on a monthly basis, including Fulltime Equivalent Employees that are determined by dividing the number of hours worked by part-time employees by 120.

B. If you have over 50 Fulltime and Fulltime Equivalent Employees you are considered a Large Employer. If you have less than 50 Fulltime and Fulltime Equivalent Employees, you are considered a Small Employer. Seasonal workers are adjusted out in the calculation.

IV. Small Employers (Under 50 FT and FTE)

A. **Exempt from even offering health coverage and exempt from the "unaffordable test" if you do have a plan**.

B. If small employer health coverage is offered, it will "mostly likely" be a Platinum, Gold, Silver or Bronze MEC Qualified Plan as described above, offering at least, or more than, 60% actuarial value coverage. At this point, the insurance industry may be limiting filings to these standard plans.

C. In 2014, small employers must report the Employer Contribution to benefits on W-2s and submit a report with employer contributions, employee cost and possible total household income. For reporting contributions, small employers are under 100 employees.

D. For this W-2 reporting of the employer contribution, large employers are defined as 100+ FTE and must report 2012 contributions.

E. Small Employers are Eligible for a Tax Credit (Tax Credit "Kits" available upon request)

1. Employers with no more than 25 FT employees and annual average wages of less than $50,000 can receive a tax credit for purchasing health insurance for their employees.

2. To receive the credit, employers are required to cover at least 50% of the total premium cost.
    - The tax credit for years 2010-2013, will be up to 35% of the employer's contribution, with the full credit of 35% available to employers with 10 employees or less and average annual wages of $25,000 or less.

3. Beginning in tax year 2014, the credit will be increased to 50% of the employer's contribution.

V. Large Employers (50+ FT)

A. **<u>You can run your own health plan without any penalty</u> if you meet the following three requirements.**

1. Offer a Platinum, Gold, Silver or Bronze plan meeting MEC requirements (offer one level).

2. Pass the "Unaffordable Test" where the employee contribution you charge is less than 9.5% of any employee's <u>Total Household Income</u>. (You have decided to make a larger employer contribution.) If the contribution is more than 9.5% on an employee, it triggers a penalty paid by you to the Exchange.

3. Have a health plan that pays at least, or more than, 60% of actuarial value.

B. If you do not offer an MEC Qualified Platinum, Gold, Silver or Bronze plan, <u>you pay a penalty as you have no health plan</u>.

C. If you offer a MEC Qualified Platinum, Gold, Silver or Bronze Plan:

1. The plan is considered "unaffordable" if the payroll deduction for single or family coverage is greater than 9.5% of that employee's Total Household Income.

2. You must also pay a penalty if you have a health plan that is less than 60% of the actuarial value.

3. In either case, the employer will pay a penalty that is <u>the lesser</u> of:

   a. <u>$3,000 for each fulltime employee receiving federal assistance to purchase through an Exchange</u>, or

   b. $2,000 per Fulltime Employee (minus the first 30 employees).

VI. What Do You Do?

You Must Test to Determine Your Employee's 9.5% Trigger Point, then adjust to another of the four plans and adjust Flex, HRAs and Voluntary Plans to integrate with the plan after you decide what is "totally" affordable for your business. Therefore, your benefit plan will be "better" then the insured "Actuarial Level" you choose.

A. Check to see if your plan has greater than 60% actuarial value. (If greater than 60% there is no penalty, <u>less than 60% is subject to penalty</u>.)

B. Take each employee's last year Household Income times 9.5% that will give you the maximum contribution they can make to your plan. If the plan is considered "unaffordable" and <u>the higher penalty ($3,000/an.) is triggered for that employee</u> that also is below 400% of FPL and qualifies for the Exchange assistance or subsidy.

C. <u>If both tests are passed (60%+ value and 9.5% of Household Income) for all or most of your employees, you have an affordable plan and you can control health benefit costs at a plan level just below the 9.5% unaffordable test for your employees</u>. If only a few employees qualify for the subsidy you may just have a $3,000 penalty for 2 or 3 (or whatever the number) employees, out of your FTE total.

<u>WHERE TO START</u>:

1. Price all four MEC Qualified plans and the HRA, Flex and Voluntary tools that could be needed to round out and be integrated with a plan with your consultants and carriers.

<u>Tested</u>		<u>Not Tested for Penalty *</u>
Single Premium per Month (Insurance alone)	+	HRA, FLEX, Voluntary
Family Premium per Month (Insurance alone)	+	HRA, FLEX, Voluntary

* The total aggregate value of all above and pre-tax voluntary benefits will be in your 2018 cadillac tax calculation.

2. What contribution is below the 9.5% trigger number calculated for single and families for the four levels of MEC Qualified plans?

D. If all four plans are unaffordable (all employee contributions are over 9.5% or you can't afford a 60% actuarial value plan) and the employer can not afford to pay more to lower employee contributions, you are faced with two choices.

1. You can keep the plan and pay the lesser of the penalty ($2,000/ee less the first 30 employees), or

2. Drop health insurance and send all employees to Exchanges and pay the penalty. You must be an employer of 100 or less FT employees to send all to the Exchange and pay the lesser penalty in 2018.

REVIEW: If all, most, or one (unclear) employee tests out as "unaffordable" and/or the plan you offer is below 60% actuarial value, you pay a penalty (or $3,000 x ?). Or you can (if you can afford it) increase your contribution and reduce your employee's contribution and decrease the actuarial value (premium cost) of your plan (go from Gold to Silver).

VII. Here's Where to Start

A. Collect Total Household Income data via confidential third party before 2014, or use your health enrollment with C.O.B. and waiver data to see who may have 2 or 3 jobs for a Total Household Income (you could estimate).

B. The 2011, 400% of FPL is $88,000 per family and the average family household income in the US is $53,000 based on 2008 data. A large number of employees will be eligible for Exchange premium assistance. There will be some decisions to be made to see how you value your people and how important they value better benefit design than is available in an Exchange. Employees may take less income for better and more flexible employer plans rather than go the exchange. There will be a balance point as the four plans increase in cost.

C. Construct a trigger table for your population.

D. **What are the Unaffordable Triggers?**
What is 9.5% of Household Income? What's the highest payroll deduction that can be charged before it is over 9.5% of Household Income?

Single: Insured or a Self Insured

Income Level	Federally Subsidized	Household Income		Maximum Premium Maximum Contribution
1	No	$50,000	X 9.5% =	$4,750/an. ($395/mo.)
2	No	$40,000	X 9.5% =	$3,800/an. ($316/mo.)
3	Yes	$27,800	X 9.5% =	$2,641/an. ($220/an.)
4	Yes	$16,640	X 9.5% =	$1,580/an. ($132/mo.)
5	?	BadgerCare or Minnesota Care		

Family: Insured or Self Insured

Income Level	Federally Subsidized	Household Income		Maximum Premium Maximum Contribution
1	No	$120,000	X 9.5% =	$11,400/an. ($950/mo.)
2	No	$100,000	X 9.5% =	$9,500/an. ($791/mo.)
3	Yes	$88,000	X 9.5% =	$8,360/an. ($696/an.)
4	Yes	$60,640	X 9.5% =	$5,760/an. ($480/mo.)
5	Yes	$50,000	X 9.5% =	$4,750/an. ($396/mo.)

VIII. **The Game Plan for 2013 into 2014 is to Adjust Your Health Plan** to a level that allows you to afford a level of payroll deductions (and the integrated benefits such as Flex, HRA, Voluntary Dental, Disability, LTC, etc.) that you can afford.

A. **<u>What Can You Afford? The big problem is what your employee can afford?</u>**

Note: The decision process for your lower paid individual or family employee is far more complicated. How do the employees decide between your "integrated plan" and the Exchange plan, less the subsidy at the same plan actuarial level? Actually, this is the HR crisis in Health Care Reform. It's not in your plan selection.

B. **<u>The Game Plan</u>**

Note: Rates will be 20%+ higher by 2014. This needs to be laid out for each carrier by your consultant, 60 days before your plan is announced to employees.
The following example has a 65%/35% premium contribution split. Your specific levels would apply (80/20, 60/40, 50/50).

Plan Level	Average Annual Family Premium	Average Monthly Family Premium	Employer: 65% Contribution	Employee: 35% Contribution	At $56,000 HHI, 9.5% is:
1: Actuarial 100%	$20,857	$1,738	$1,129.70	$608.30*	$5,320/an. $443/mo.
2. Platinum 90%	$18,960	$1,580	$1,027.00	$553.00*	$5,320/an. $443/mo.
3. Gold 80%	$16,680	$1,390	$903.50	$486.50*	$5,320/an. $443/mo.
4. Silver 70%	$13,296	$1,108	$720.20	$387.80	$5,320/an. $443/mo.
5. Bronze 60%	$10,800	$900	$585.00	$315.00	$5,320/an. $443/mo.

* Employee contribution is more than 9.5% and thus unaffordable. Each year rates go up as does (hopefully) household income. Note: 40% excise tax is paid by insurer or plan on $27,500 or more family health insurance premium "Cadillac tax". That will be charged back to you in 2018

1. To use the Game Plan, an employer with a Platinum plan paying $1,027/mo. can drop to a Silver plan and keep people on their plan, reducing their employee contribution to $387.80, and the employer will save $307/mo. ($3,684/an.) per family. This money could be used for an integrated HRA to pay close to a Gold plan. You can maintain a Silver Plan, plus added benefits. You can maintain a Silver Plan plus added benefits.

2. Or the employer can increase the employer contribution and reduce the employee contribution to stay below the 9.5% trigger to maintain a Platinum or Gold plan.

IX. In Reality:

A. PPACA will, in most cases, reduce benefits for employees in and out of the exchange, forcing even higher provider cost shift and higher relative premiums with the possibility of level Household Income.

B. Low income employees and the unhealthy will be driven to Exchanges (many are their now: BadgerCare, HIRSP, Medicaid).

C. Because of the Minimum Loss Ratio calculations (for fully insured employer plans) there will be heavy refunds for the healthy, wealthy and small employers. The small, self insured employer will also continue to be rewarded by good experience by setting legal, high community rates, staying healthy, and never spending the claim dollars.
* Note: You may want to self insure integrated with an HRA.

D. With the same community rates to be charged by a carrier in and out of the Exchange, the healthy, wealthy and small employers (insured and self insured) will most likely stay out of the Exchanges.

E. Small, healthy and wealthy employers under 50 FTE will keep doing whatever they want. No trigger or test, just reporting values in 2014.

X. **The Future of Employer Based Health Care** is in making your population healthy, wealthy and knowing how to integrate the actuarial levels of health insurance with Flex, Voluntary benefits and Health Reimbursement Accounts.

A. Employers of under 100 employees, who have had a cafeteria plan for the two years preceding 1/1/2014, may establish a Cafeteria Plan after 2014.

B. In 2014, for employers under 100 FTE, it may be possible to satisfy a MEC Qualified Plan level with a stand alone HRA, but it may have annual limits. (You could request relief from HHS/get a HRA limit waiver). As of 8/22/11 (CC110), you are exempt from applying if you already have an HRA.

C. There are no limits on HRA designs if:

1. <u>Integrated with other coverage</u> (i.e. part of a group health plan of P/G/S/B levels) not subject to any medical limit restrictions.

2. Retiree-only HRA – not subject to any medical limit restrictions.

3. Stand-alone, non-retiree HRA – No Limits as of 8/22/11 if established prior to 3/23/10.

XI. **Employer Design Ideas and the Employee Subsidy Decision Tools** to help in employee decisions will follow. Unless PPACA is repealed or declared unconstitutional.

Companies
Armitage, Inc.
Second Opinion Insurance Services, Inc.
Corporate Compensation Plans of WI, Inc.
125 N. 7th St., Ste. B, La Crosse, WI 54601
608-784-5433 or 800-952-0263

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