

# AFP® Annual Conference



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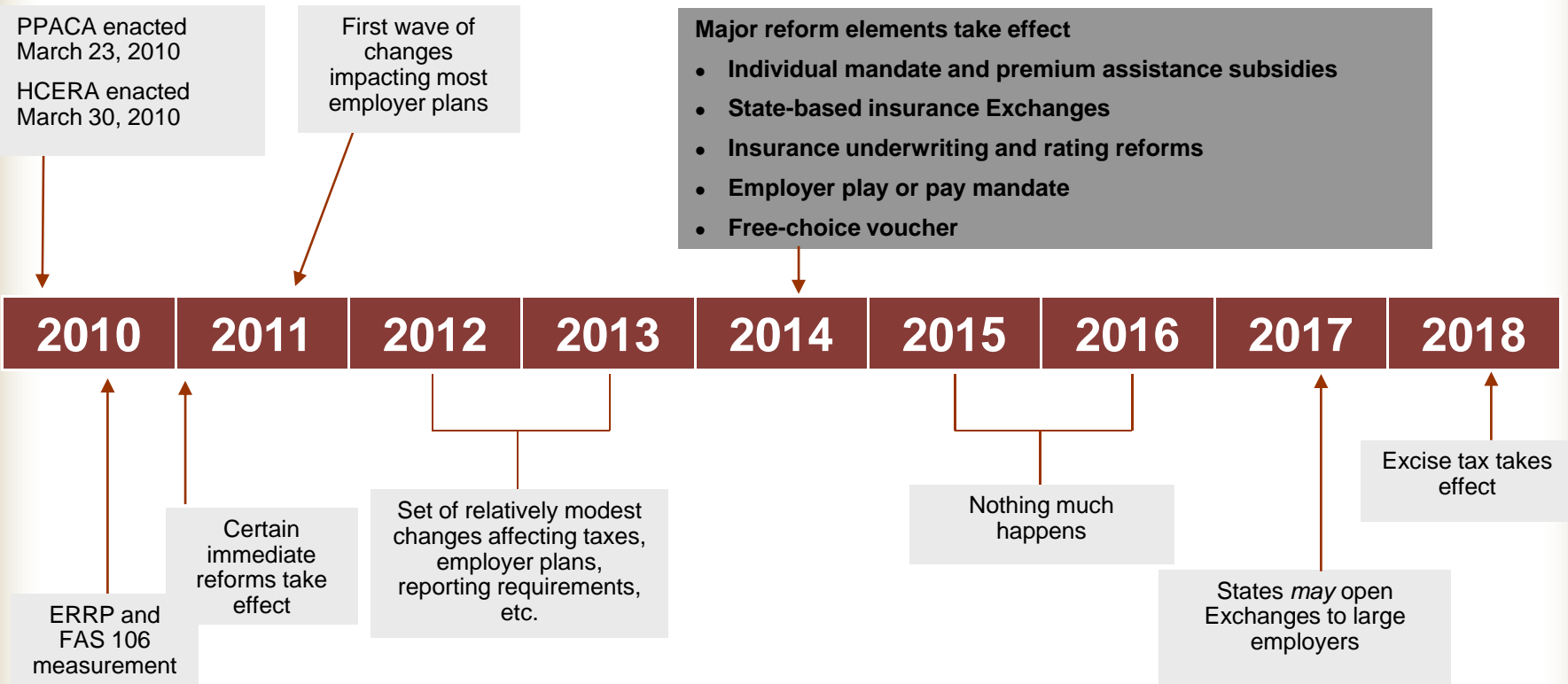
## Health Care Reform: Implications for Corporate Treasury and Finance

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# Health Reform is a Transformational Moment in History and Will Take Many Years to Become Fully Implemented



**Throughout: evolving interpretations, proposed regulations, final regulations, technical corrections, preparation for major changes, unpredictability**

# What Does Health Reform Mean?

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- Expands coverage of individuals, but more people will be covered by Medicaid and it reimburses health care costs at a lower rate so there will still be cost shifting to private payers
  - While some uncompensated care may be moved to Medicaid, there will still be cost shifting to the private pay sector due to the low Medicaid reimbursement rates
  - Private pay historically has been charged in the range of 130% of costs instead of the actual cost of care
  - 2011 to 2014 employer plans will bear the cost shifting from uncompensated and undercompensated care in addition to the mandates and no savings from additional coverage should be expected until 2014
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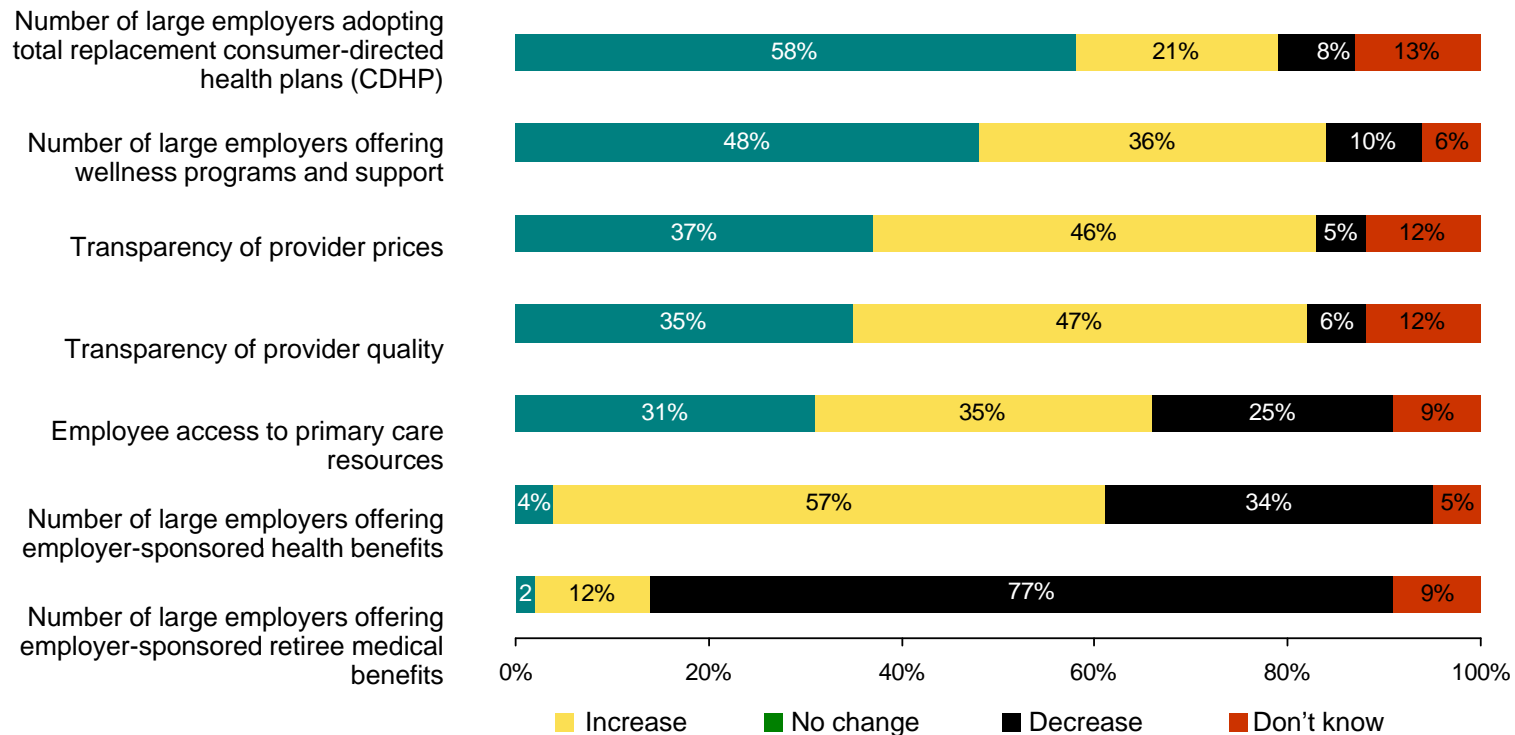
# What Does Health Reform Mean?

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- Individuals will be mandated to purchase coverage or else pay a tax beginning in 2014
- Exchanges will provide in 2014 a way for individuals and small employers to purchase coverage
- While high risk pools may offer coverage in the interim, it will be costly and there is still going to be uncompensated care resulting in cost shifting to private pay from uncompensated care
- Between now and 2014, employers will bear the cost of the new coverage mandates and new administrative requirements

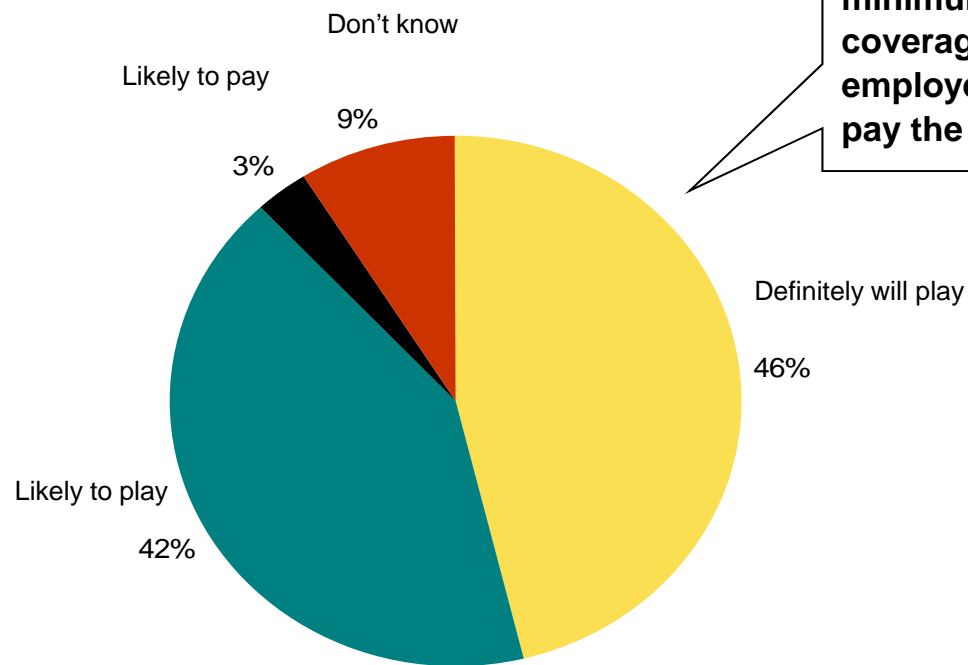
# Expected Impact of Reform on Employer Health Strategies and Provider Practices

**Employers expect reform to accelerate adoption of CDHPs and decline in retiree medical. But most employers remain committed to wellness programs and support.**



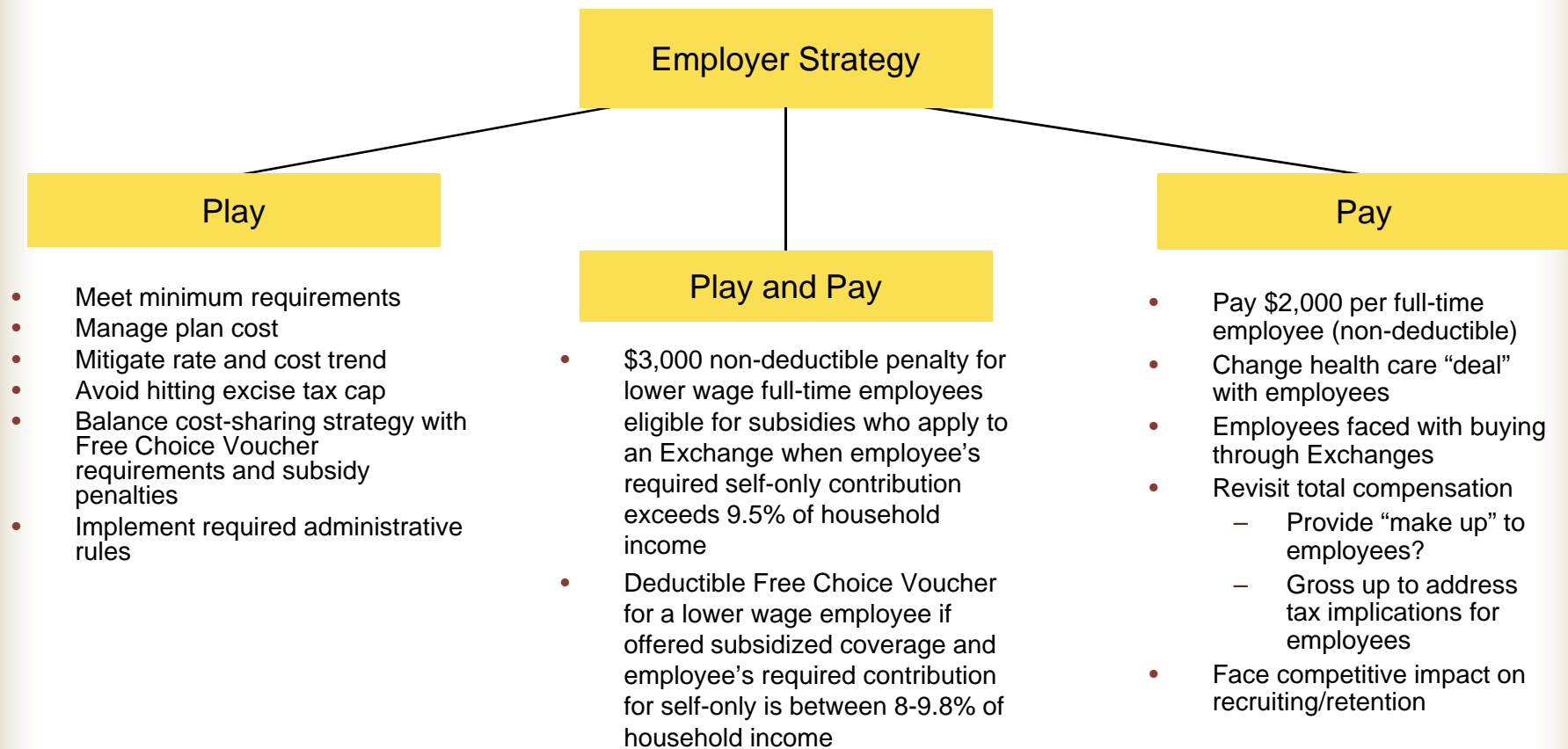
Source: May 2010 Towers Watson survey on health care reform

# Employers' Commitment to "Play" Versus "Pay"

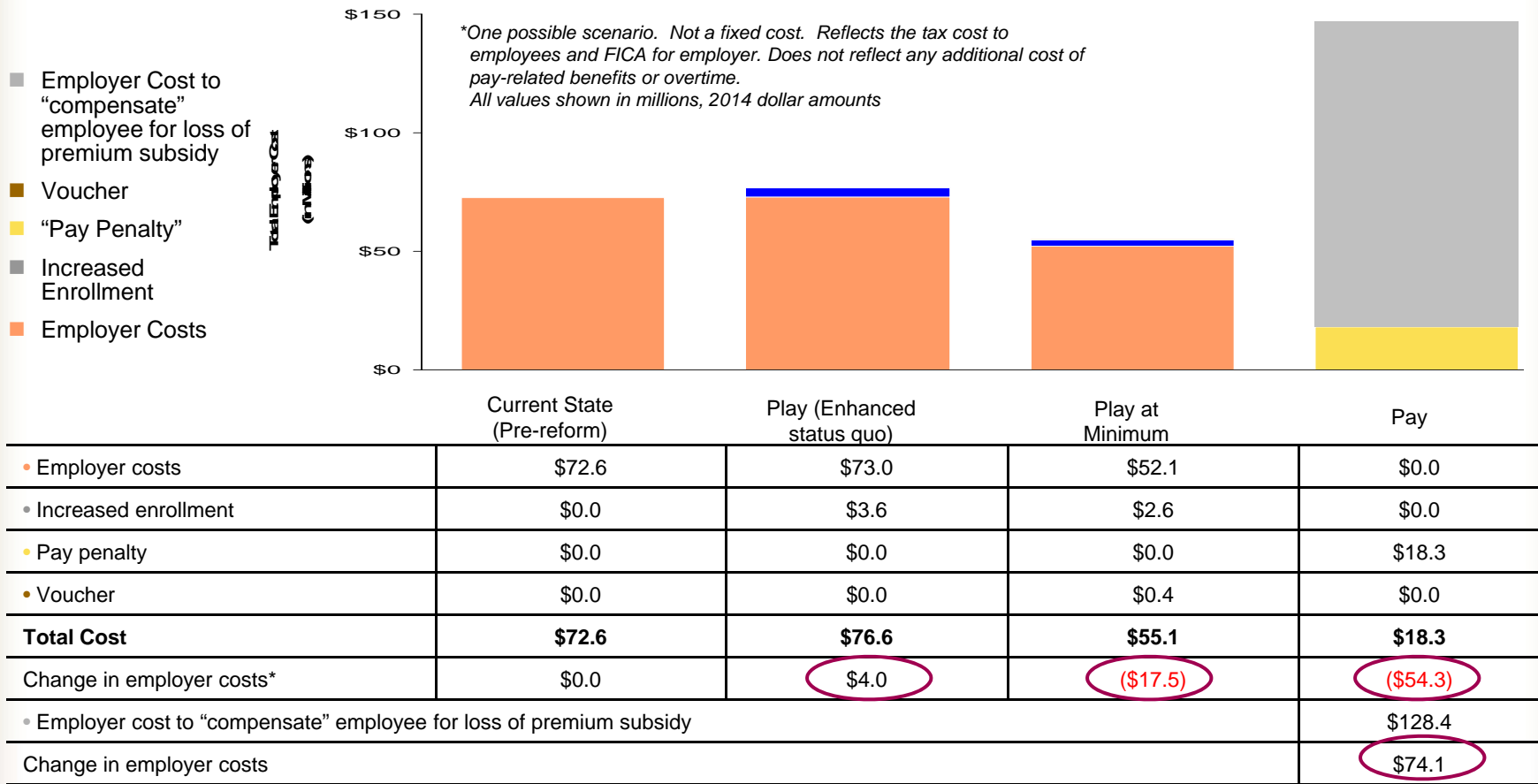


Source: May 2010 Towers Watson survey on health care reform

# The Decision to Pay or Play Will be Critical for Employers



# Pay or Play — A Real Example



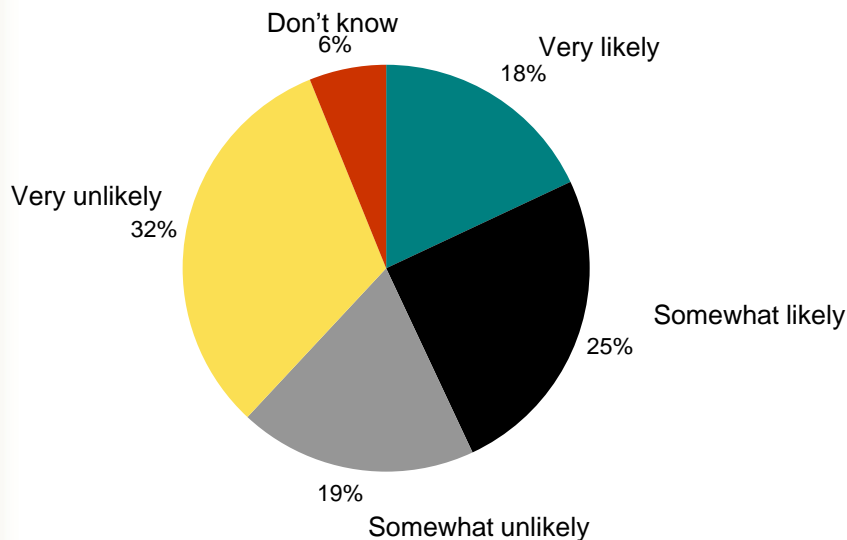


# Likelihood Organization Will be Subject to an Excise Tax

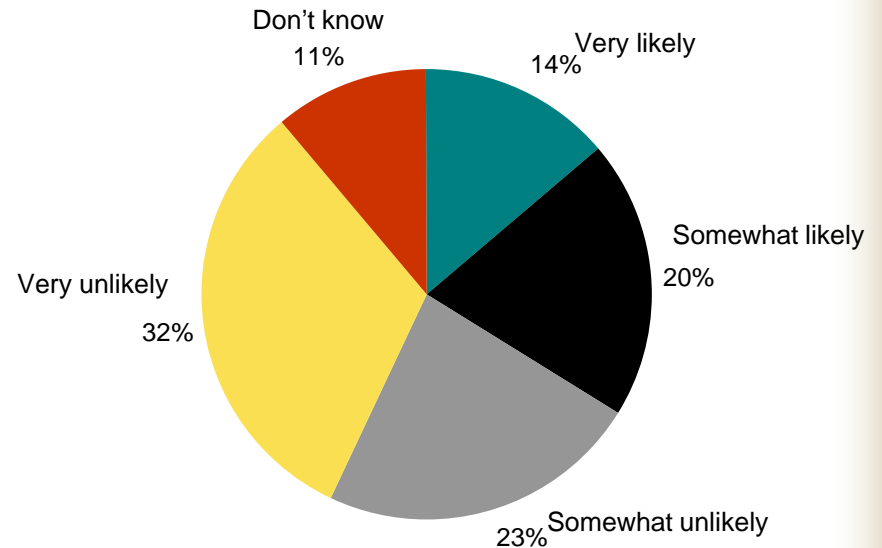
Only 43% of employers think their active plans will be subject to the cap in 2018

Towers Watson analysis projects 60% of large employer plans will be subject to the tax on "Cadillac" plans

Medical plans for active employees



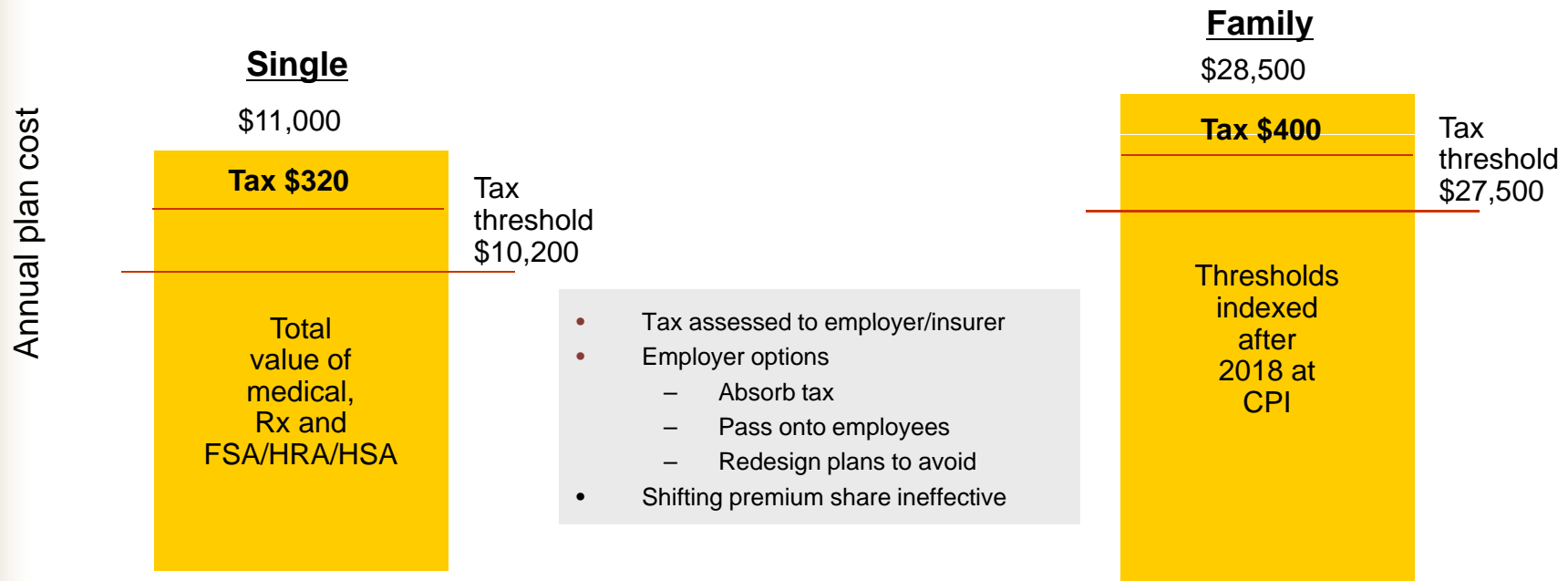
Medical plans for retirees



Source: May 2010 Towers Watson survey on health care reform

# How the Excise Tax Works

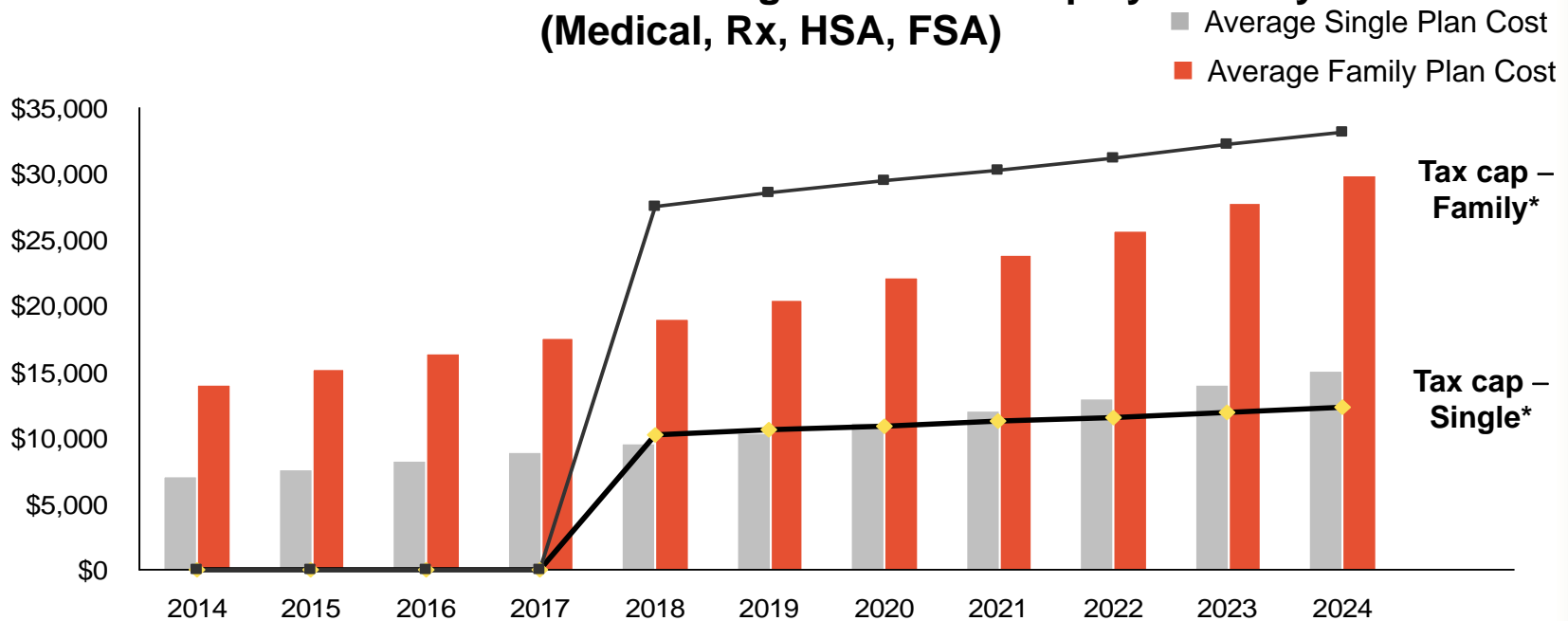
40% non-deductible tax on employers with “high cost” plans starting in 2018



- Thresholds may be higher in 2018 based on indexing formula (i.e., if FEHBP standard plan cost grows >55% by 2018)
- Higher thresholds for certain jobs, early retirees (single + \$1,650, family + \$3,450)
- Employer can aggregate pre-65 and post-65 retirees, mitigating tax impact substantially for this group

# Excise Tax Estimates — A Real Example

**Rates for Combined Coverages – Active Employees Only  
(Medical, Rx, HSA, FSA)**



**Estimated total Excise Tax (\$ millions)**

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
\$0.0	\$0.0	\$0.0	\$0.0	\$1.0	\$2.1	\$3.6	\$5.8	\$8.2	\$10.9	\$13.9

\*Tax cap assumes future CPI-U index of 3%, medical trend 8%, FSA/HSA 0%

**Dental and Vision not included in this illustration**

# Financial Implications of Health Reform

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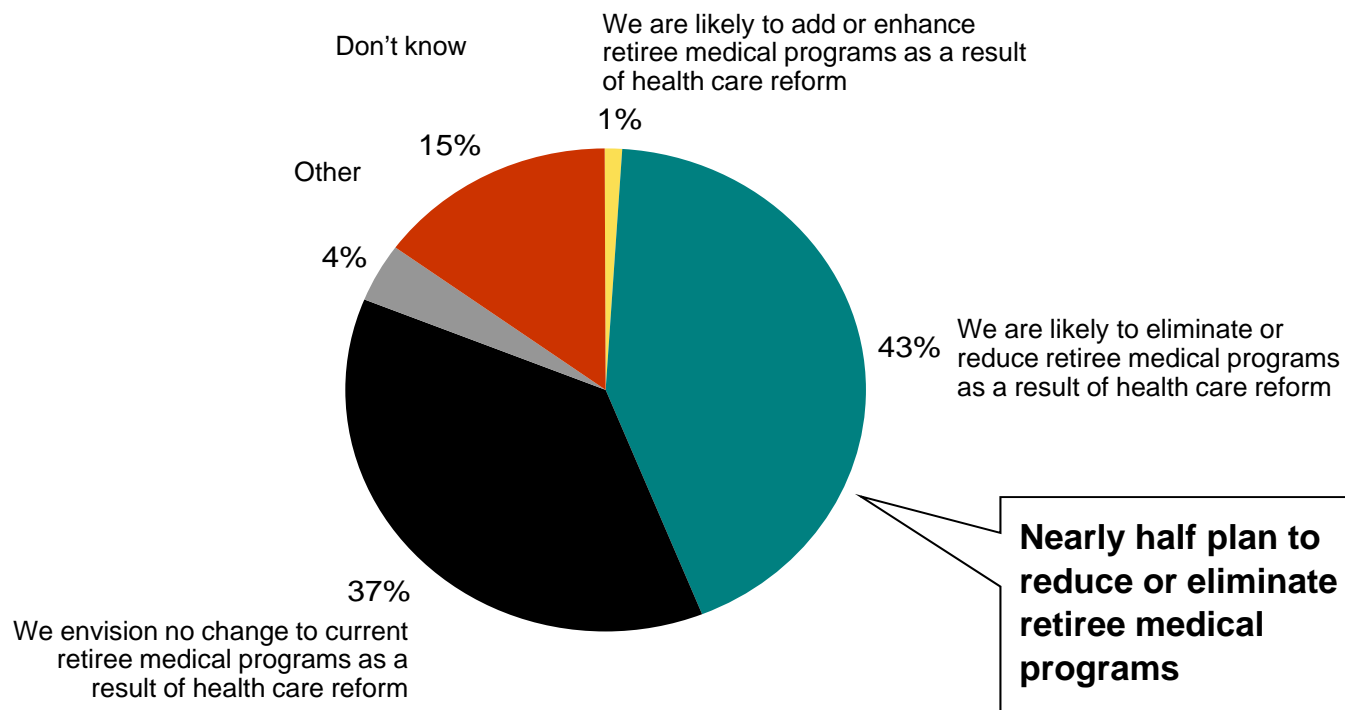
- New mandates on health plans mean:
  - more cash expenditures to pay claims due to increased benefits:
    - unlimited lifetime and annual dollar limits on benefits
    - dependent coverage to age 26
    - new preventive care benefit mandates
  - While expansion of coverage through tax mandate begins in 2014, which may reduce cost shifting to private plans, the benefit mandates and related costs apply to employers and their plans in 2011

# Financial Implications of Health Reform

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- New mandates on health plans mean:
  - More cash expenditures to pay for increased administration expenses for new “patient protections” and claim and appeal procedures
    - protection against retroactive revocation of coverage
    - access to certain specialists
    - new emergency care payment mandates
- Decision-
  - Has HR determined whether it can delay any of the requirements on patient protections (2d and 3d bullet points) by maintaining grandfathered status?
  - Will the company save some of the cash outlay by changing vendors, moving to a fully insured or different product, a new broker?
  - Should the company require participation in health and disease management programs to start improving the health of the workforce and reduce long-term trends?

# Employers' Commitment to Retiree Health Strategy



Source: May 2010 Towers Watson survey on health care reform

# Financial Implications of Health Reform

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- New mandates on health plans may apply to retiree health plans and mean an increased financial statement liability for retiree benefits, if such benefits are not structured to be exempt from the mandates:
  - increased liabilities for OPEB
  - less favorable financial ratios when seeking to obtain financing
  - less favorable debt ratings
- Decision-
  - Can the retiree benefits be structured to be exempt to avoid the new mandates and related increase in OPEB liabilities?

# Financial Implications of Health Reform

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- Retire Health Plans
- Decision-
  - Can the retiree benefits be structured to be exempt to avoid the new mandates and related increase in OPEB liabilities?
  - Should funding vehicles for retiree medical be amended to permit use of funds for other welfare benefits?
    - Accounting considerations
    - Collective Bargaining Agreement considerations
  - Should the retiree benefits be terminated in 2014?
    - Collective Bargaining Agreement considerations
    - Litigation cost issues



# Financial Implications of Health Reform

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- New mandates on health plans may increase financial statement liability for retiree benefits, if such benefits are not structured to be exempt from the mandates:
  - Can the retiree benefits be restructured to be exempt?
    - Are there collective bargaining agreement restrictions?
    - Are there trusts involved and are there restrictions in such trusts that impact the changes?
    - Are there provisions in prior acquisition or merger agreements that may prevent making changes to the retiree benefits?
  - If exempt how will the liability be funded?

# Financial Implications of Health Reform

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- Administrative Costs will Increase due to new reporting requirements:
  - 2011 Forms W-2 must reflect the value of health coverage
  - new administrative appeal for external review
  - retention of accredited external review
  - new procedures for hearings with claim appeals
- Decisions-
  - Should administration be outsourced for the review of requests for external appeals?
  - Should the payroll function be outsourced?
  - What outsourcing options exist for a newly mandated process that did not previously exist?
  - Can the date the requirement applies be delayed?

# Financial Impact on Companies with Significant Low Wage Workforces

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- Many companies with a significant low wage workforce either do not offer such workers health plan coverage or only offer a very limited medical benefit plan to such employees (“Mini med plans”).
  - Mini med plans will not comply with the new mandates
  - Mini med plans must apply for a waiver from the Secretary of HHS for 2011 through 2013 and show that they are eligible for the waiver
    - waiver must be requested at least 30 days in advance of first day of plan year

# Financial Impact on Companies with Significant Low Wage Workforces

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- Can the company continue to operate if it loses the low wage workforce that cannot afford the full cost of employer sponsored health plan coverage or what will it cost to obtain such services?
- If a waiver can be obtained for 2011 through 2013, in 2014 what will the company do to obtain such work-
  - outsource?
  - require such positions to be full time?
  - pay the tax for not providing coverage for such positions?

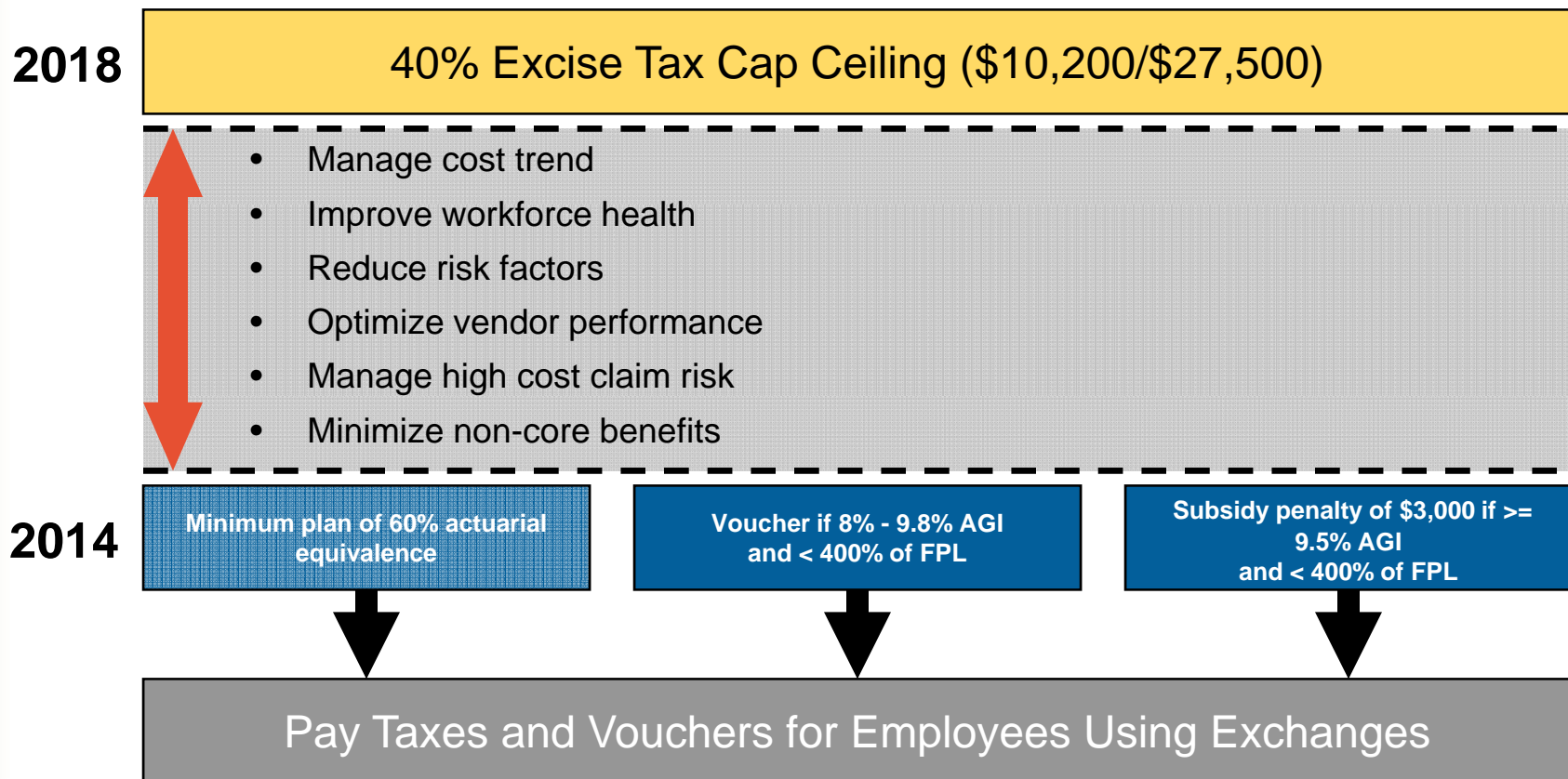
# Financial Impact on Companies with Significant Low Wage Workforces

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Decision on low wage positions—

- If such low wage positions continue to provide a valuable service to the company's operations after the waiver period expires-
  - Should the compensation package for such positions be restructured so that they are full time positions and have sufficient compensation to participate in the company's full health plan coverage?
  - Should such positions be filled via outsourcing?
  - Should the company continue the positions unchanged, but offer no coverage and pay the failure to provide coverage tax?

# Finally — Excise Tax Management or Exit?



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# Appendix

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# Types of Plans Offered Currently

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- #1 PPO 79.8%
- #2 HDHP 42%
- #3 HMO 36.5%
- #4 POS 18.2%
- #5 EPO 12.9%
- #6 Individual 7.8%
- #7 MiniMed 5.7%
- #8 Other

Source: International Foundation 2010 Employer Survey

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# Health Plan Cost Trends 2010

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- Under age 65 employed population
  - All Medical Plans: 7%
  - PPO: 7%
  - POS: 7%
  - HMO: 7%
  - Indemnity: 8%
  - ABHP with HRA: 6%
  - ABHP with HSA: 7%

Source: Towers Watson Health Care Cost Survey

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# Health Plan Cost Trends- 2010

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- Retiree over age 65
  - All Plans Combined: 4%
  - Medicare Advantage PPO/HMO: 5%
  - Medicare Supplement: 2%

Source: Towers Watson Health Care Cost Survey

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# Impact of Health Care Reform on Finances

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- Options for the Financial Function to consider:
  - Outsourcing of benefit plan administration to address increased cost of new health plan appeals rather than increasing the number of employees
  - Cost of hiring new employees to fulfill the function v. the cost of retraining underutilized employees to perform the function

# Which Plans Are Subject To New Mandates?

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- Medical surgery
- Mental health and substance abuse
- Health Reimbursement Accounts

# What Plans Are Potentially Not Subject To Mandates?

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- Vision\*
- Dental\*
- Life
- Disability and AD&D
- Retiree Only Plans\*
- FSAs\*
- HSAs

\*Provided certain requirements are satisfied.

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# Which Plans Are Potentially Exempt From Mandates?

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- Less than 2 current employees on the first day of plan year
- This is a test that must be met each year to be exempt for that year

# First Decision Point- Retiree Coverage Issues

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- If you cover retirees in a plan, have you separated the retiree coverage into a separate plan that can be exempt if it meets the test annually?
  - Exemption avoids all of health reform's requirements, both as to increased coverage mandates and administrative requirements and can save costs, avoid increased cash outlay for claims and avoid increased OPEB liabilities on financial statements
  - What are the costs of separating the plan, additional audit, tax return, additional administrative costs and trustee fees on an annual basis v. increased annual cash outlay for increased claims for benefits with no limits and new mandates in place and increased costs to company of increase in liabilities on financial statements for OPEB and impact of such increase on obtaining financing

# First Decision Point- Retiree Coverage Issues

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- Retiree drug coverage under Medicare has improved under health care reform, is your retiree medical plan's coverage still equivalent and creditable?
  - Creditable determines eligibility for subsidy, and
  - impacts the type of notice that must be provided to employees
- Is the cost and cash outlay for any required increase in retiree benefits for prescriptions offset by the amount of the subsidy that would be lost if the benefit increase did not occur? Will this still be true when the increase in any financial statement liability for the OPEB is factored into the company's financial statements?



# Which Plans can be excepted from most of the requirements as excepted benefits?

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- Separate dental or vision
- Health FSAs
- Other limited scope benefits
- AD&D
- Cancer Policy
- Life (does not reimburse medical expenses)

# Dental and Vision

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- Extend to overage dependants or not in dental and vision benefits?
  - Increased coverage and cash outlay for claims for age 26 dependents v.
  - Increased administration costs for administering different definitions of which dependents are eligible for benefits
- Excepted benefit to avoid new extension to overage dependent
  - must be separately elected
  - must be separately paid for
  - must not be integral to medical plan

## Second decision point- Excepting other coverages from health reform's mandates to save costs

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- Are the dental and vision benefits structured so that they can be elected separately from the medical benefits?
  - What costs must the company incur to separate these benefits
    - administrative, audit, tax filings, trustee fees?
  - How separate must they be?
    - Is there a separate premium paid for the dental and vision benefits?
    - Are the dental and vision elected separately from the medical benefits?
- If they do not meet both of the above, can the plan's benefits be restructured to meet those requirements without jeopardizing the plan's benefit option's status as grandfathered, if it is grandfathered?
  - does grandfathered status save sufficient costs and outlays of cash for claims to offset the increased costs from applying the mandates to the dental and vision coverage, e.g., now permitting unlimited orthodontia expenses.

# What Are Employers Doing to Prepare?

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- Evaluate offering coverage vs. paying tax
- Monitor costs of new mandates
- Move toward HDHPs
- Preparing to include value of health coverage on Form W-2s issued to employees in 2011
- Considering impact of Cadillac health plan tax in 2018

# What Does Health Reform Mean for Employers in 2014?

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- Employers of >50 full time employees will either
  - pay a tax if they do not offer coverage, or
  - pay a tax if the coverage offered is not minimum essential coverage, or
  - pay a tax if they offer coverage to all FTEs and if 1 employee with household income  $\leq 400\%$  FPL opts out and buys coverage on the exchange
- Exchanges providing a way for individuals to purchase coverage are not required to be effective until 2014

# Employer Offering Coverage – 2014 and later

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- If your company is a large employer and
  - it does not offer coverage, and at least 1 FTE obtains federal premium credit for purchasing on exchange,
  - then employer pays \$2,000 x (# FTE, but tax is triggered once over 30 FTEs seek coverage on a subsidized basis through the exchange)

# Employer Offering Coverage – 2014 and later

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- If large employer does not offer coverage and does not have any employees who obtain a federal premium credit for buying coverage on an exchange
  - Employer pays no tax penalty
  - Must have no employees with household income <400% FPL
  - Must provide all such low income individuals or individuals whose cost of coverage is <9.8% and >8% of household income a free choice voucher

# Large Employer Does Not Offer Coverage and Does Not Pay Tax – 2014 and later

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- Not offering coverage to all FTEs
  - If coverage provided to any employee
  - If premium contribution for any employee to participate is more than 8% but no more than 9.8% of his or her household income, and
  - If at least 1 employee in such household income level opts to buy coverage on the exchange and has household income  $\leq 400\%$  FPL
  - Employer must provide employee free choice voucher to buy coverage on exchange and no penalty applies to the employer for such employee
  - If any of above requirements are not met, then no free choice voucher required



# Large Employer Offered Coverage – 2014 and later

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- 1 FTE with household income  $\leq 400\%$  FPL and purchases coverage on exchange
- Was there 1 plan option at employer that required a premium  $< 9.5\%$  of such employee's household income
- Coverage qualified as Bronze with 60% of actuarial value of benefits covered
- Employer pays \$3,000 x each FTE who qualifies for premium credit on exchange

## Decision – To Offer Or Not Offer

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- \$3,000 x # FTEs with household income  $\leq$ 400% FPL and qualifies for premium credit on exchange
- No coverage penalty if no coverage offered  
\$2,000 x # FTEs seeking subsidized coverage on exchange, but penalty is assessed once 31<sup>st</sup> seeks subsidized coverage on all of those seeking subsidized coverage

# The Financial Choice- 2014

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- To offer health coverage or to pay the tax
- Cost of coverage and potential penalties related to offering coverage (Cadillac tax in 2018) and taxes applicable vs. cost of not offering coverage and impact on employee recruitment, retention, absenteeism and morale
  - many plans, according to certain forecasts, may hit the value of coverage to be subject to the Cadillac tax

# The Financial Choice 2014

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- Not offer coverage
- Employee turnover
- Employee recruitment and retention
- Cost of recruitment and retraining
- Employee absenteeism
- Potential savings from costs not incurred to sponsor health plan v. increase in tax and other costs

# The Financial Choice

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- Cost of new mandates
- Cost of new restrictions
- Additional administrative costs to offer health benefits

# The Financial Choice

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- Employee retention v. turnover cost
- What are competitors doing now and what will they do in the future?

# What should employers prepare for?

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- Identify which plans are subject to health reform, which may be exempt or excepted benefits and which can delay application of health reform by maintaining grandfathered status
- Develop a strategy for each plan or benefit structure considering the costs and administrative issues related to the choices made

# What should employers prepare for?

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- Large employers (>200 FTEs) must automatically enroll new employees in health coverage as soon as implementing regulations are issued and effective
  - Estimate the cost of this increased coverage in terms of increased claims made under your plan for persons previously not covered
  - Estimate the increase in administrative costs related to any system changes to be made mid-year to implement this and the related costs for education of new hires on this requirement
- Automatic enrollment of employees in community living assistance and support (CLASS)
  - What will the cost of implementing this automatic payroll deduction and remittance to the government be?
  - Will enrollment in CLASS impact the premiums on the employer's long term care insurance program?



# What should employers prepare for?

---

- Identify which plans are subject to health reform, which may be exempt or excepted benefits and which can delay application of health reform by maintaining grandfathered status
- Develop a strategy for each plan or benefit structure considering the costs and administrative issues related to the choices made

# Employers' Biggest Concerns Regarding Health Reform

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- Unlimited lifetime limit on dollar value of benefits
  - this is a greater concern for employers with \$1M and \$2M lifetime limits on benefits than those with higher limits that were not as likely to be met
- No annual limit on dollar value of essential health benefits
- Extending coverage to children to age 26 (without old dependency tests)

# Employers' Biggest Concerns Regarding Health Reform

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- Coverage mandates
  - Preventive care
  - Other benefit mandates
- Coverage eligibility for 30 or more hours per week
- New claim and appeal procedures
- New prohibition on rescission prohibition

# The 2011-? Choice

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- To grandfather or not to grandfather
  - Delays new claim procedure
  - Delays 24 hour turnaround on urgent care
  - Delays external claim process
    - 5 business days to decide if eligible for external review
    - new administrative process
    - retain at least 3 new accredited external review organizations used on rotational basis
    - Cost of external reviewers
    - Cost of increased internal administration for presentation of evidence and testimony as part of the appeal process
  - Grandfathered status delays the administrative costs and cash outlays associated with the above increased administrative requirements

# Strategies to consider- Grandfathered Status

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- Grandfathered status delays application until grandfather status lost
- Grandfathered status does not delay or eliminate all requirements

## Not Grandfathered

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- Claims procedure additional requirements including external review
- Mandated preventive care without cost sharing
- Emergency care
- Dependent to age 26 even if other coverage

# The 2011-? Choice

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- Exempt or Excepted Benefits
  - exempt avoids unlimited lifetime and annual dollar limits on benefits
  - avoids preventive coverage mandates
  - avoids emergency care mandates
  - avoids new claims rules and potential additional liability and costs

# The 2011 and Subsequent Years' Choice

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- Structuring Benefits for Exemption from Health Care Reform's Requirements (cont'd)
  - excepted benefits
    - dental
    - vision
    - single illness insurance coverage
    - flexible spending accounts



# The 2011 and Subsequent Years' Choice

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- Structuring Benefits for Exemption from Health Care Reform's Requirements
  - retiree only plans
  - less than 2 current employees on last day of plan year
  - a participant is a current employee who is a participant or a person who is a beneficiary of an employee who is or could become eligible to receive benefits

# The 2011-? Choice Summary

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- If not exempt, to grandfather or not to grandfather
  - Grandfather does not avoid application of no annual limit or no lifetime limit
  - Grandfather does not avoid extension of dependent coverage to some over age dependents
  - Grandfathered status requires acceptance of government's limits on what can be changed in the plan and with respect to cost sharing on the plan with employees
  - Grandfathered status does not avoid the prohibition on rescissions of coverage

# Strategies to Consider- Separate Plans that can be Exempt

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- Exemption avoids mandates
- Separate plan means additional costs, audit, administration, documentation
- Separation means separate Form 5500
- Separation may mean establishing new procedures for funding payment of claims

# Impact

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- Prohibition on rescission of coverage implication
  - impact on ability to retroactively remove coverage for certain acts
  - not clear how far this reaches, e.g., will it impact erroneously provided coverage to ineligible person or improperly paid claim
- Need to amend plan documents to show stayed grandfathered

# What Mandates are Most Expensive?

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- This depends upon your current plan design and plan limits
- It must be determined on a plan by plan basis
- Decisions and changes for 2011 must be made now and those decisions will impact costs in 2011 and later years

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**Thank you for your attention.**

Any Questions?