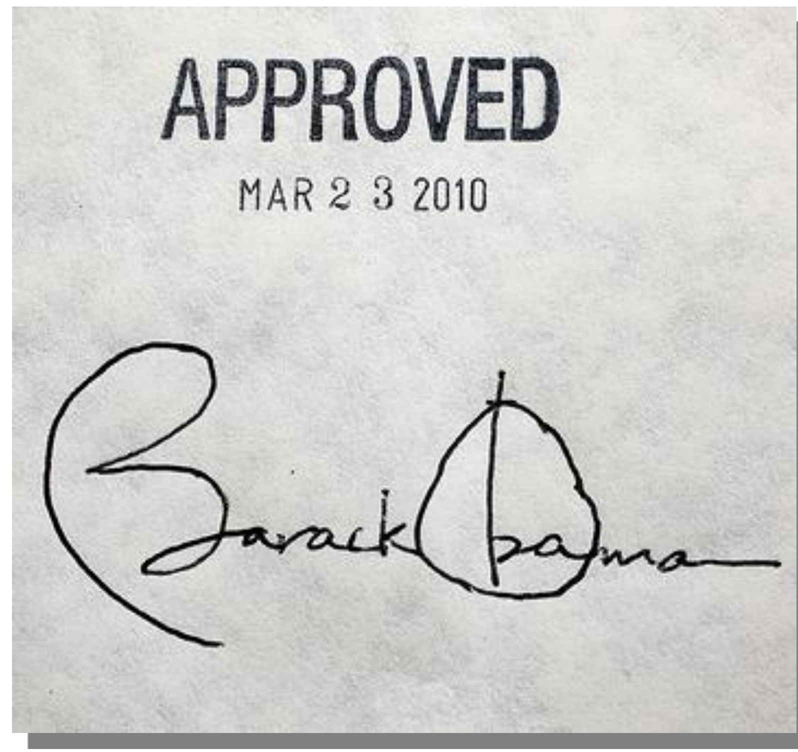
Pilot Benefits presents:

# Healthcare Reform

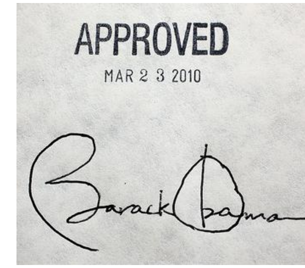
## How It Affects Your Business

# Background

- Health care reform became a reality when President Obama signed into law the Patient Protection and Affordable Care Act (PPACA) on March 23rd.
- A 'reconciliation' bill which made changes to the PPACA was signed into law one week later.



# Background




- Because the new law is more than 2,000 pages long, there is a process required to “translate” the legislative language.
- Individuals will not be required to make mid-year changes to comply with near-term reform requirements. These requirements will need to be included at the renewal.
- Policies that were in effect on the date of enactment (March 23, 2010) are granted grandfather status. Grandfathered plans are exempt from many of the near-term and long-term requirements. However, Grandfathering is likely not an option for most groups.

# Web Portal

- Bill requires the states and the Secretary of the Department of Health and Human Services to develop information portal options for state residents to obtain uniform information on sources of affordable coverage, including an Internet site.
  - The roll out date is July 1, 2010.
  - Information must be provided on private health coverage options, Medicaid, CHIP, the new high-risk pool coverage and existing state high-risk pool options.

# Tax Credit

- Eligible small businesses are eligible for phase one of the small business premium tax credit.
  - Small employers will receive a maximum credit, based on the number of employees, of up to 35% of premiums for up to 2 years if the employer contributes at least 50% of the total premium cost.
  - Businesses do not have to have a tax liability to be eligible
  - Non-profits are eligible (25% credit)
  - Average salary must be $50,000 or less (excludes owners)

# Pre-existing Conditions

- All group and individual health plans, including self-insured plans, will have to cover preexisting conditions for children 19 and under for plan years beginning on or after six months after date of enactment.
  - Effective 9-23-10 or renewal
  - Grandfathered status applies to group health plans

# Dependents

- All group and individual plans, including self-insured plans, within six months of enactment, will have to cover dependents up to age 26
  - Effective 9-23-10 or renewal
- The reconciliation package:
  - Extended this requirement to grandfathered plans
  - Established that dependents could be married and would be eligible for the group health insurance income tax exclusion

# Restrictions

- No Lifetime Benefit Limits; Restricted Annual Limits
  - Effective 9-23-10 or renewal

- No discrimination in coverage based on salary
  - Effective 9-23-10 or renewal
    - QUESTION: Does this impact plans that class out employees??

# Preventive


- For all group and individual health plans, including grandfathered plans, the bill mandates coverage of specific preventive services with no cost sharing.
  - Effective 9-23-10 or renewal
- Minimum covered services are specified based on existing federal guidelines on specific topics
- This may ultimately be a significant cost increase for many plans
  - Unclear if dental and vision for children will be included in the preventive care requirements.

# Wellness

- Federal Grant Program for small employers
- In 2011, employers can establish a differential of 30% of premium based on wellness standards; modification of benefits allowed

# Report Value


- If employee receives health insurance coverage under multiple plans, the employer must disclose the aggregate value of all such health coverage on their W2…
  - Excludes all contributions to HSA’s and Archer MSA’s and salary reduction contributions to FSA’s
  - Applies to benefits provided during taxable years after December 31, 2010
  - Reportable, but not taxable

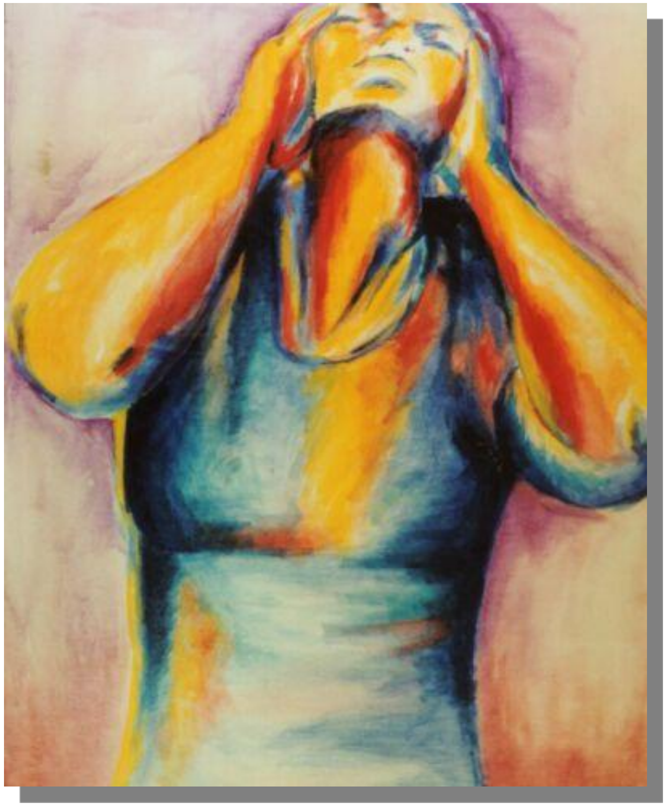
# Programs


- Reinsurance Program for early Retirees
  - Effective 9-23-10
  - 5 Billion Dollars to offset cost of health coverage to retired, non-Medicare eligible employees over age 55
  - Reimburses employers 80% of claims between $15,000 and $90,000
- Voluntary Federal Long-Term Care Program
  - Effective 1-1-2011
  - Requires employers to enroll employees unless they opt out
  - Regulations and details pending

# Limitations


- Increase in penalty from 10% to 20% for HSA funds not used for qualified medical expenses
  - Effective 1-1-2011
- Over-The-Counter drugs no longer reimbursable under HSA's and FSA's
  - Effective 1-1-2011
- FSA capped at $2,500 in 2013 (originally 2011)

# Additional Regulations



- Healthcare companies prohibited from cancelling coverage except for fraud or intentional misrepresentation
- Coverage of emergency services mandated at the In-Network level
- Designation of a primary care physician
- Creation of High Risk Pool for individuals who can not obtain coverage
  - Inclusive Health
  - Employers cannot put employees into the pool

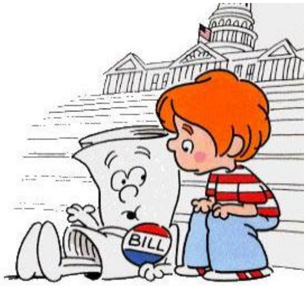
# 2012-2013

- Requirement to provide participants a HHS-approved summary of benefits and coverage explanation prior to enrollment, re-enrollment, or prior to delivery of the certificate of coverage
- Material modifications notice due no later than 60 days prior to the change
- $1,000 per willful violation
- Requirement is in addition to SPD and SMM requirements under ERISA
- Effective date no later than 3/23/2012

# Effective 2014


- All individual health insurance policies and all fully insured group policies 100 lives and under (and larger groups purchasing coverage through the exchanges) must abide by strict modified community rating standards
- Premium variations only allowed for age (3:1), tobacco use (1.5:1), family composition and geography
- Geographic regions to be defined by the states and experience rating would be prohibited
- Wellness discounts are allowed for group plans under specific circumstances

# Effective 2014




- No preexisting condition exclusions – All plans are prohibited from applying exclusions based on preexisting conditions to a plan participant *of any age*.
- Employer wellness programs – The maximum incentive amount (for programs providing an incentive based on achieving a health standard) will increase from 30% to 50% of COBRA premium cost.
- Limit on out-of-pocket expenses – Out-of-pocket expenses may not exceed the amount applicable to coverage related to HSA's. For 2010, these amounts are $5,950 for individuals and $11,900 for families. This provision does not apply to grandfathered plans.
- Cost-sharing limits – Deductibles may not exceed $2,000 for single coverage and $4,000 for family coverage. This provision does not apply to grandfathered plans.

# Effective 2014


- Waiting periods – Waiting periods may not exceed 90 days
- Clinical trials – Plans are required to cover routine costs of participation in certain clinical trials by qualified individuals. This provision does not apply to grandfathered plans.
- State health benefit Exchanges – Each state is required to create an Exchange to facilitate the sale of qualified benefit plans to individuals and plans. Beginning in 2014, individuals and small employers may purchase health insurance through the Exchange. Employers who purchase coverage through the Exchange may permit employees to pay for such coverage with pre-tax dollars under the employer's cafeteria plan.

# Effective 2014


- Employer responsibility – Employers with 50 or more full-time employees are required to offer minimum essential coverage for employees and their dependents. Aggregate hours of part-time employees must be accounted for when determining the number of full-time employees. Non-compliance will result in a penalty that equals the number of full-time employees (over 30) for the month times 1/12 of $2,000.
- Subsidized coverage penalty – For employers who offer minimum essential coverage for full-time employees and their dependents, if one or more full-time employees is receiving subsidized coverage through an Exchange in any month, the employer is subject to a penalty that is equal to the number of employees receiving a subsidy for the month times 1/12 of $3,000 with a cap applied.

# Effective 2014

- Individual responsibility – All American citizens and legal residents are required to purchase qualified health insurance coverage. Failure to do so will result in a penalty which is based on a formula, and will increase each year. Coverage under a grandfathered plan will satisfy the individual responsibility requirement.
- Vouchers for qualified employees – Employers that offer coverage and make a contribution toward the coverage are required to provide vouchers to qualified employees. The voucher will be in the amount equal to the contribution the employer makes and may be used by the employee to purchase coverage through the Exchange. Vouchers are excludable from employee income and are deductible by the employer.


# Effective 2014

- Increased employer reporting – Employers will be subject to increased governmental reporting obligations that will require information such as:
  - (1) confirmation that the employer offers (or does not offer) minimum essential coverage to their full-time employees and their dependents
  - (2) length of any waiting period
  - (3) lowest-cost option in each enrollment category under the plan
  - (4) employer's share of the total allowed costs of benefits provided under the plan
  - (5) total number and names of full-time employees receiving health coverage

# 2017 & 2018


- Employer participation in Exchange – Beginning in 2017, state may allow employers of any size to purchase coverage through the Exchange
- Cadillac tax – Plans with values that exceed$10,200 for individual coverage and $27,500 for family coverage are subject to a 40% excise tax. When determining the values of plans, reimbursements for FSA's, HRA's, and employer contributions to HSA's will be included. The value of stand-alone vision and dental plans will be excluded. In addition, the excise tax will not apply to accident, disability, long term care and after-tax indemnity or specified disease coverage. The tax will be paid by the insurer in the case of a fully insured plan or by the TPA in a self-funded arrangement, but would be passed on directly to the employer.

# QUESTIONS ?

Healthcare Reform: How It Affects Your Business