

Health Care Exchanges

Pay or Play?

What are the financial implications for
Employers and Employees?

Treasure Valley Association of Health Underwriters

January 12, 2012



Background

- Growing interest in the question of how many employers will keep offering coverage to their full-time employees once the Affordable Care Act (ACA) is fully implemented in 2014
 - Drop coverage
 - Raise wages
 - Send employees to the exchange
 - Pay penalties

Surveys and Controversy

- Microsimulation (?) models from CBO, Lewis Group, Urban Institute, RAND, suggest stable ESI market after 2014
- Same for large consulting firms – Mercer, Towers Watson, Aon Hewitt, Booz & Co.

Jan 12, 2012

Benefit Innovators

3

Is Any of This Credible?

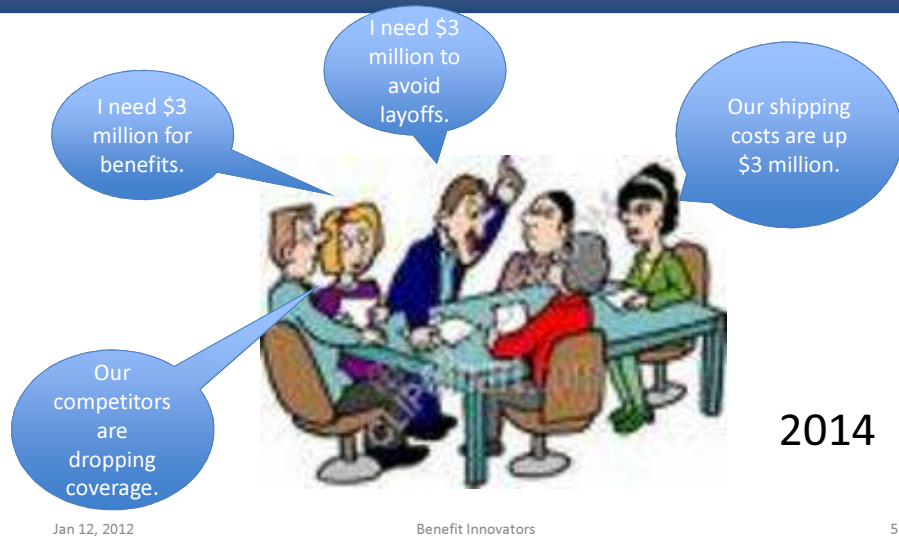


Jan 12, 2012

Benefit Innovators

4

The Real Conversation



Controversy

- McKinsey and Holtz-Eakin look at the advantages of dropping coverage and predict large erosion of ESI

Backlash On Pay or Play Thinking

- Tax consequences take away advantage
- Penalties could change
- Inertia of current system
- Traditional recruitment tool
- If employer raises wages, some models show increase in cost to drop coverage

Jan 12, 2012

Benefit Innovators

7

“I won’t be the third.”

- “I’m not going to be the first to drop coverage, but I won’t be the third, either.”
- December survey by Highroads:
80% of employers don’t intend on dropping coverage, but 65% will follow others.

Jan 12, 2012

Benefit Innovators

8

Key Concepts

- Actuarial Value – this is the percentage of benefits paid by a plan after considering deductibles and co-pays compared to a plan that paid 100% of all eligible expenses.
- Affordable Plan – an employer plan is considered affordable if the actuarial value is at least 60%, and the employee contributions are less than 9.5% of family income.
- Qualified Health Plans sold at the exchange will offer 4 levels of coverage – Platinum, Gold, Silver, and Bronze. They will correspond to actuarial values of 90%, 80%, 70%, and 60%.
- Subsidies will be available at the exchange for anyone below 400% of poverty level.
 - Premium Assistance Credit will help pay premiums
 - Cost Sharing Subsidies will help pay out-of-pocket costs

Jan 12, 2012

Benefit Innovators

9

Sample Plan

PLAN DESIGN SUMMARY

Medical		Rx	
Deductible	1000	Deductible	0
Coin	80%	Coin	100%
Next	5000	Next	0
PCP Co-pay	30	Generic	10
Specialist co-pay	40	Brand	20
Other co-pay	0	Non-formulary	30
		Mail Generic	20
		Mail Brand	40
		Mail NF	60
		Specialty	40

Jan 12, 2012

Benefit Innovators

10

Sample Actuarial Value

Combined Gross Claims	Med Deductible	Rx Deductible	Medical Coinsurance	Rx Coinsurance	Medical Copayments	Rx Copayments	Net Cost
4,894,368	530,487	0	235,948	0	109,160	175,973	3,842,800
	10.8%	0.0%	4.8%	0.0%	2.2%	3.6%	78.5%

Jan 12, 2012

Benefit Innovators

11

Employer Penalties

- Penalty applied only if at least one employee receives a premium assistance credit or cost sharing subsidy from the Exchange
- Employer Provides No Coverage
 - \$2,000 per FT employee (after first 30)
- Employer Provides Unaffordable Coverage
 - \$3,000 per FT employee that receives government assistance through an Exchange
 - But no more than penalty for not providing coverage
- Penalty is assessed on a monthly basis and paid as part of federal income tax

Jan 12, 2012

Benefit Innovators

12

Exchange Subsidies

Income based on Federal Poverty Level	Highest Percentage of Income individual must pay for coverage:
Up to 133%	2%
133% to 150%	3-4%
150% to 200%	4-6.3%
200% to 250%	6.3-8.05%
250% to 300%	8.05-9.5%
300% to 400%	9.5%

Jan 12, 2012

Benefit Innovators

13

Exchange Subsidies – Cost Sharing

Income based on Federal Poverty Level	Plan's Share of Costs (for silver plan standard is 70%)
100-150%	94%
150-200%	85%
200-250%	73%
250-400%	70%

Jan 12, 2012

Benefit Innovators

14

Subsidy Eligibility

400% of Poverty		
Family of	1	\$43,560
	2	\$58,840
	3	\$74,120
	4	\$89,400
	5	\$104,680
	6	\$119,960
	7	\$135,240
	8	\$150,520
	9	\$165,480
	10	\$180,440

Jan 12, 2012

Benefit Innovators

15

Tax Considerations

- Employer's contribution to health benefits is tax free to workers. If an employer were to pay this as wage instead, it creates taxable income and loses value.
- Currently, employees can pay their contributions for insurance coverage on a pre-tax basis through a section 125 plan. This saves FICA, Medicare, and income tax withholdings.
- Thus, the tax implications of financing health insurance through a non-tax advantaged system are considerable.

Jan 12, 2012

Benefit Innovators

16

Case Study

- Assume:

<u>Tier</u>	<u>Total Enrolls</u>	<u>Med/Rx Insurance Premium</u>	<u>EE % Cont.</u>	<u>Employee Contribution Mthly Rate</u>	<u>Monthly Employee Cost</u>
Employee Only	39	\$612.50	25.0%	\$153.13	\$5,972
Emp/Spouse	20	\$1,312.50	30.0%	\$393.75	\$7,875
Emp/Child	5	\$787.50	30.0%	\$236.25	\$1,181
Emp/Children	4	\$1,137.50	30.0%	\$341.25	\$1,365
Family	32	\$1,575.00	30.0%	\$472.50	\$15,120
	100				\$31,513
					Annual \$378,158

Jan 12, 2012

Benefit Innovators

17

Out of Pocket Costs by Age

	Employee Only	EE Spouse	EE Child	EE Children	Family
0-19	\$78.73	\$165.03	\$101.15	\$134.76	\$209.85
20-24	\$78.73	\$165.03	\$101.15	\$134.76	\$209.85
25-29	\$78.73	\$165.03	\$101.15	\$134.76	\$209.85
30-34	\$83.40	\$174.82	\$107.14	\$142.75	\$222.29
35-39	\$85.84	\$179.92	\$110.27	\$146.92	\$228.79
40-44	\$93.11	\$195.16	\$119.61	\$159.36	\$248.17
45-49	\$105.27	\$220.65	\$135.23	\$180.18	\$280.58
50-54	\$133.97	\$280.82	\$172.11	\$229.31	\$357.09
55-59	\$166.19	\$348.35	\$213.50	\$284.45	\$442.96
60-64	\$195.83	\$410.48	\$251.57	\$335.18	\$521.96
65-69	\$209.22	\$438.53	\$268.77	\$358.09	\$557.63
70+	\$236.20	\$495.10	\$303.44	\$404.28	\$629.56

Jan 12, 2012

Benefit Innovators

18

OOP for This Population

	Employee Only	EE Spouse	EE Child	EE Children	Family
0-19	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
20-24	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
25-29	\$551.11	\$0.00	\$0.00	\$0.00	\$419.70
30-34	\$166.80	\$349.64	\$321.42	\$0.00	\$889.16
35-39	\$171.68	\$359.84	\$0.00	\$0.00	\$0.00
40-44	\$372.44	\$0.00	\$0.00	\$0.00	\$0.00
45-49	\$0.00	\$441.30	\$0.00	\$360.36	\$561.16
50-54	\$1,339.70	\$0.00	\$344.22	\$458.62	\$2,856.72
55-59	\$1,329.52	\$1,393.40	\$0.00	\$0.00	\$4,429.60
60-64	\$783.32	\$2,462.88	\$0.00	\$0.00	\$0.00
65-69	\$418.44	\$877.06	\$0.00	\$0.00	\$2,230.52
70+	\$0.00	\$990.20	\$0.00	\$0.00	\$1,259.12

\$313,655.16

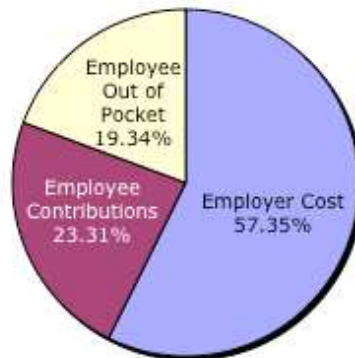
Financial Profile

ER cost	EE cost	Total	
\$930,143	\$378,158	\$1,308,300	Insurance cost
	\$313,657	\$313,657	Out of pocket costs
\$930,143	\$691,814	\$1,621,957	Total

57.3%

42.7%

Financial Profile



Jan 12, 2012

Benefit Innovators

21

Actuarial Value

Insurance Premium	\$1,308,300	
Expense Margin	\$196,245	
Claim Costs	\$1,112,055	
Plan Pays	\$1,112,055	78%
Member Pays	\$313,657	22%
Total Claim Costs	\$1,425,712	

Jan 12, 2012

Benefit Innovators

22

Actuarial Value



Jan 12, 2012

Benefit Innovators

23

ESI Tax Advantages

Ee Out-of-Pocket	\$313,657
Wages Required	\$402,844
Ee Prem Contribution	\$378,158
Wages Required	\$378,158
FICA and FIT Savings	\$89,188
Employer Cost	\$930,143
Employee Savings	\$263,830
Employer Savings	\$77,050

Tax advantage of ESI

Jan 12, 2012

Benefit Innovators

24

Scenario 1

- Employer simply drops coverage
- Employees have to take post tax money to buy at the exchange
- For the employer, how much is saved?
- For the employees, what is the financial impact of losing ESI and buying at the exchange, considering both premium costs and out-of-pocket costs, but getting some benefit from subsidies?

Jan 12, 2012

Benefit Innovators

25

Scenario 2

- The employer takes the savings from Scenario 1 and increases the wage base by that amount.
- For the employer, dropping coverage is now a “wash”.
- For the employees, how does this turn out?

Jan 12, 2012

Benefit Innovators

26

Scenario 3

- The employer decides to drop coverage, but wants to hold the employees harmless.
- What wage adjustment is required so there is no financial impact to employees.
- For the employer, how does this work out considering penalties and taxes. Does the employer save money or lose money?

Jan 12, 2012

Benefit Innovators

27

Results

The following slides summarize the results of the modeling.

Jan 12, 2012

Benefit Innovators

28

Scenario 1

Total Premium Subsidy at the Exchange	\$508,342
Cost Sharing Subsidy at the Exchange	\$67,901

Jan 12, 2012

Benefit Innovators

29

Employer Savings

- Employer drops plan and saves \$930,143
- FICA taxes go up \$31,325
- Penalty of \$140,000
 - 100 employees
 - Pay \$2,000 penalty on 70 of them
- Net savings of \$758,817

Jan 12, 2012

Benefit Innovators

30

Increased Employee Costs

\$1,039,563 Cost at the Exchange
 \$691,814 Cost in the Employer Plan
 \$347,749 Increased Cost
 20 Employees with decreased cost
 80 Employees with increased cost

Jan 12, 2012

Benefit Innovators

31

Suggested Method of Evaluation – Examine the Wage Base

- Every measure has pre-tax and post-tax implications
 - Difficult to comprehend when translating back and forth between pre-tax and post-tax
 - So, use gross wage as a standard parameter for comparisons
- Easy to understand method:
 - Split gross wage into the amount supporting medical expense, and the amount for all other necessities. Sort of “take home pay” in terms of gross wage.
 - Examine whether the change increases or decreases the other “take home pay”.
 - Any increase in take home pay is good, and vice versa, and can be compared across various scenarios

Jan 12, 2012

Benefit Innovators

32

Increased Employee Costs

	Employee Cost	Current Payroll	Used for Benefits	Other take Home Pay
Scenario 1				
Er Plan	\$691,814	\$4,020,231	\$781,002	\$3,239,229
At the Exchange	\$1,039,563	\$4,020,231	\$1,348,616	\$2,671,615
Difference			\$567,615	-\$567,615

Employees lose \$567,615 of gross wage available for things other than supporting their medical plan.

Jan 12, 2012

Benefit Innovators

33

Scenario 2

- Employer uses savings to increase gross wage
- Break even for Employer

Jan 12, 2012

Benefit Innovators

34

Employer Savings – Scenario 2

- Employer drops plan and saves \$758,817 (see scenario 1)
- Raises salaries by \$714,517
- FICA taxes go up \$44,300
- Net savings of zero

Jan 12, 2012

Benefit Innovators

35

Impact on Employee Costs – Scenario 2

	Employee Cost	Current Payroll	Used for Benefits	Other take Home Pay
Scenario 1				
Er Plan	\$691,814	\$4,020,231	\$781,002	\$3,239,229
At the Exchange	\$1,039,563	\$4,020,231	\$1,348,616	\$2,671,615
Difference			\$567,615	-\$567,615
Scenario 2				
At the Exchange	\$1,124,041	\$4,734,748	\$1,455,047	\$3,279,701
Difference		\$714,517	\$674,045	\$40,472

Employees gain \$40,472 of gross wage available for things other than supporting their medical plan.

Jan 12, 2012

Benefit Innovators

36

Scenario 3

- Employer uses savings to increase gross wage such that there is no impact on the employees.
- Break even for the Employees.
- How does the employer make out?

Jan 12, 2012

Benefit Innovators

37

Impact on Employee Costs – Scenario 3

	Employee Cost	Current Payroll	Used for Benefits	Other take Home Pay
Scenario 1				
Er Plan	\$691,814	\$4,020,231	\$781,002	\$3,239,229
At the Exchange	\$1,039,563	\$4,020,231	\$1,348,616	\$2,671,615
Difference			\$567,615	-\$567,615
Scenario 3				
At the Exchange	\$1,121,177	\$4,694,276	\$1,451,445	\$3,242,831
Difference		\$674,045	\$670,443	\$3,601

Jan 12, 2012

Benefit Innovators

38

Employer Savings – Scenario 3

- Employer drops plan and saves \$758,817 (see scenario 1)
- Raises salaries by \$674,045
- FICA taxes go up \$41,791
- Net savings of \$42,981

Jan 12, 2012

Benefit Innovators

39

The Big Problem

- The impact across the employee population may be OK,
- But the variance employee-by-employee is dramatically different.
- Very negative impact on older employees and family coverage and higher wage.

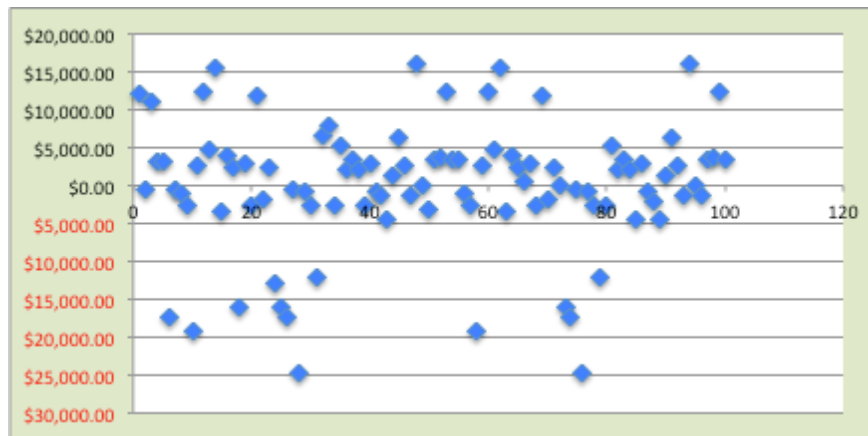
Jan 12, 2012

Benefit Innovators

40

The BIG Problem

Scatter diagram shows the variation in impact across the population.



Jan 12, 2012

Benefit Innovators

41

Defined Contribution Strategy

- Instead of raising wage – set up HRA accounts
- Grade by age to reflect both actuarial values and prices in the individual market
- Employees decide between subsidized exchange or tax preferred individual products

Jan 12, 2012

Benefit Innovators

42

Monthly HRA Amounts

	Employee Only	EE Spouse	EE Child	EE Children	Family
0-19	\$202.98	\$417.57	\$264.22	\$356.08	\$540.05
20-24	\$202.98	\$417.57	\$264.22	\$356.08	\$540.05
25-29	\$202.98	\$417.57	\$264.22	\$356.08	\$540.05
30-34	\$215.02	\$442.32	\$279.89	\$377.19	\$572.06
35-39	\$221.30	\$455.24	\$288.06	\$388.21	\$588.77
40-44	\$240.04	\$493.80	\$312.46	\$421.09	\$638.64
45-49	\$271.39	\$558.30	\$353.27	\$476.09	\$722.06
50-54	\$345.40	\$710.54	\$449.60	\$605.91	\$918.95
55-59	\$428.46	\$881.40	\$557.72	\$751.62	\$1,139.94
60-64	\$504.87	\$1,038.60	\$657.19	\$885.67	\$1,343.24
65-69	\$539.38	\$1,109.59	\$702.11	\$946.20	\$1,435.05
70+	\$608.95	\$1,252.71	\$792.67	\$1,068.25	\$1,620.15

Applied to population \$758,817

Jan 12, 2012

Benefit Innovators

43

Let Employees Choose

- Employees choose either Exchange or Individual Insurance Market
- Generally, those with subsidy do better at the exchange
 - Use HRA to pay out-of-pocket
- Others do better in tax preferred private market
 - Use HRA for both premium and out-of-pocket

Jan 12, 2012

Benefit Innovators

44

Impact on Employee Costs – Defined Contribution

	Employee Cost	Current Payroll	Used for Benefits	Other take Home Pay
Scenario 1				
Er Plan	\$691,814	\$4,020,231	\$781,002	\$3,239,229
At the Exchange	\$1,039,563	\$4,020,231	\$1,348,616	\$2,671,615
Difference			\$567,615	-\$567,615
Defined Contribution				
		ees		
At the Exchange	47	\$1,564,070	\$198,120	\$1,365,950
Individual Market	53	\$2,456,161	\$502,501	\$1,953,660
Total		\$4,020,231	\$700,621	\$3,319,610
Difference				\$80,381

Jan 12, 2012

Benefit Innovators

45

Employer Savings – Defined Contribution

- Employer drops plan and saves \$758,817 (see scenario 1)
- Places \$758,817 into an HRA
- \$250,658 of HRA is unused and forfeited
- Net savings of \$250,657

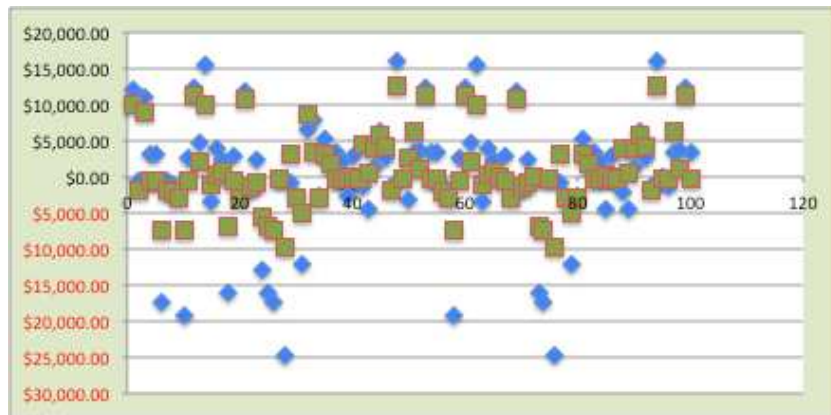
Jan 12, 2012

Benefit Innovators

46

Results by Person – Defined Contribution

There is a much tighter spread of impact across the population



Jan 12, 2012

Benefit Innovators

47

Defined Contribution Summary

- Both exchange subsidies and tax advantages are maximized
- Both employees and employer do better than Scenarios 2 or 3.
- Spread of impact across employee population is much more palatable

Jan 12, 2012

Benefit Innovators

48

Recent Development - Safe Harbor

- Law says penalty is based on affordability at 9.5% of family income
- Safe harbor based on single coverage at 9.5% of employee income.
- Enables an employer to assure no penalties if they offer a plan

Jan 12, 2012

Benefit Innovators

49

Does Any of this Matter?

- None of this impacts the pay or play decision
- If play, the safe harbor makes it easy to avoid penalties
- If play, there may be some uncertainty in estimating subsidies available to dependents, but no uncertainty in regard to the employer

Jan 12, 2012

Benefit Innovators

50

Safe Harbor (and the New Murkiness)

What do these parentheses mean?

Jan 12, 2012

Benefit Innovators

51

The Law Says . . .

- Penalties are for employers that do not offer affordable coverage to their employees (and their dependents).

What do the parentheses mean? Why did they put parentheses around “and their dependents”?

Jan 12, 2012

Benefit Innovators

52

Possible Interpretations

- Only offering coverage to employees is required to avoid penalty. Can make dependent coverage 100% contributory.
- But, then dependents may not be eligible for subsidies since
 - Coverage for employees is affordable
 - Coverage is available for dependents

Jan 12, 2012

Benefit Innovators

53

No Dependent Coverage

- If don't offer dependent coverage at all
 - Dependents, depending on income, may be eligible for subsidies.

Awaiting further guidance

Jan 12, 2012

Benefit Innovators

54

Benefit Innovators

For Further Information:

Brad Vernon, FSA, MAAA
bvernon@benefininnovators.com
www.benefitinnovators.com
717-381-7194

