Health Care Reform

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November 17, 2010

Day of Enactment

- Senate Bill (H.R. 3590) day of enactment – March 23
- Reconciliation Bill (H.R. 4872) day of enactment – March 30
- Limited or delayed guidance from HHS
- Insurance Market Reform changes must be implemented for January 1 plan year

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Health Reform Overview

- ✓ Health reform is a journey; not an event. Legislation spans 2010 – 2018.

- ✓ The legislation is complex and lacks clarity. Employers will need professional advice and services to achieve compliance, assess cost implications, redesign benefit structure and establish long term strategy.

- ✓ Legislation drives coverage expansion and insurance market reform. It provides minimal near-term assistance from employers to help control costs.

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Reference: Health Reform Chronology
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Health Care Reform – Chronology

2010

March (date of enactment)

Senate Bill (H.R. 3590) enactment

March 23, 2010

Reconciliation Bill (H.R. 4872) enactment

March 30, 2010

June (90 days after enactment)

- Small business under 25 employees eligible for tax credit (retroactive to 1/1/2010)
- Temporary reinsurance program for employers who provide coverage for early retirees
- Provides immediate access to high risk pools for uninsured (pre-existing conditions)
- Seniors will receive a $250 rebate to help fill the Medicare “donut hole”

September (6 months after enactment)

- Bans pre-existing conditions exclusions for dependents under age 19
- Prohibits lifetime / restrictive annual dollar maximums
- Mandates dependent coverage to age 26 for those not eligible for other group coverage
- Prohibits rescissions except for fraud
- Preventive care covered without cost sharing (new plans)
- Group plans must cover ER services without prior authorizations and in- or out-of-network (new plans)
- Group plans must allow designation of OB/GYN or pediatrician as PCP (new plans)
- Employer plans must have HHS approved external appeal process (new plans)
- Insured group health plans subject to nondiscrimination rules re: highly compensated individuals (new plans)

Health Care Reform – Chronology

2011

- Employers required to disclose value of health benefits on W-2 forms
- OTC drugs without prescription no longer eligible under FSA, HRA, or HSA
- Higher penalty on withdrawal of HSA funds for non-medical expenses
- Auto-enrollment of new hires for employers with more than 200 employees (likely effective when HHS regulations issued)
- Employers with less than 100 employees are eligible for wellness grants (up to 5 years)
- New federal voluntary LTC program established (CLASS Act)
- Requires insurers to annually report percent of premiums spent on medical services; if less than 80%, must provide rebate to enrollees (large group plans must spend 85%)

2012

- Employers required to provide employees with Uniform Summary of Coverage (24 months post-enactment)
- Plans must report annually to HHS and participants regarding improving quality of care (24 months post-enactment)
- Employers must satisfy expanded Forms 1099 reporting requirements for payments to corporate service providers

2013

- Caps FSA contributions to $2,500/year
- Imposes an additional hospital insurance tax of .9 percent on high income individuals ($200,000 individual, $250,000 joint)
- Imposes an additional 3.9% Medicare payroll tax on unearned income for high income individuals ($200,000 individual, $250,000 joint)
- Imposes a comparative effectiveness fee of $2 per participant for insurers
- Employers required to provide written notice to employees about Exchange and subsidies
- Tax exclusion of Medicare Part D drug subsidy eliminated

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Health Care Reform – Chronology

2014

- Employers with more than 50 employees must offer coverage or pay free rider penalty
- Employers required to offer free choice vouchers to qualified employees
- Cost sharing limits for group health plans – annual OOP limits cannot exceed HSA limits; deductibles cannot exceed $2,000 single and $4,000 family coverage (new plans)
- Bans pre-existing conditions exclusions for all individuals
- Bans waiting periods greater than 90 days
- Employers permitted to offer employees wellness incentive rewards of up to 30 percent of health plan premiums
- Employers must report on provision of minimum essential coverage and EE contributions exceeding 8% of wages
- Requires individual mandate to obtain health care coverage
- Provides subsidies for families earning up to 400 percent of the poverty level or, under current guidelines, about $88,000 a year to purchase health insurance
- State based Insurance Exchanges operational for individuals and small groups; expanded to large groups in 2017
- Health plans must cover routine costs for clinical trial participants (new plans)
- Group plans/insurers cannot discriminate against any provider with regard to plan participation (new plans)

2018

- Imposes a 40% excise tax on high cost health plans that exceed $10,200 for individual and $27,500 for family coverage

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First Renewal After 9/23/10 - Therefore, 7/1/11 for College Plan:

- Bans pre-existing limits for dependent children.
- Eliminates lifetime maximums

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Additional Key Features effective in 2011:

- Creates a temporary reinsurance program for retirees over age 55, not Medicare eligible.
  - 80% of claims cost $15k - $90k.
  - Only $5B available for the entire national program.
  - Employer must apply (expected June/July 2010.)
  - No rules, guidelines, application process yet established.
- OTC drugs no longer eligible for FSA, HRA or HSA unless you have a prescription for the medication.
- Employers must report value of health benefits on W-2; i.e., 2011 value reported in 2012.

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Additional features effective in 2011, *Continued*:

- Limits internal annual maximums on “core medical benefits”—which have not been defined.
- CLASS - establishes national limited long-term care coverage payroll deducted via employer—details to be determined.
- Provides $250 rebate for “donut hole” for Medicare beneficiaries.
- Requires loss ratios of 85% for large groups for insured plans (impact on self-funded to be determined.)
- 3-year restructure of Medicare Advantage Plans begins.
- New fees on Pharmaceutical sector.

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Implementation of Health Reform

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Employer Impact – Key Provisions

Grandfathering

Grandfathered Plans

Generally, individual and group plans in effect on date of enacted are grandfathered

Allows enrollment of new employees or family members after date of enactment

Unclear whether grandfather is maintained if plan amended significantly or offered to new categories of previously ineligible employees

Collectively Bargained Plans

Collectively bargained plans under agreements ratified before date of enactment are grandfathered until date on which last agreement relating to coverage expires

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Grandfathering

Provisions Applicable to All Plans

- Provisions applicable to all plans regardless of grandfathered status:
  - Coverage of adult dependents up to age 26 (prior to 2014, only if no other employer coverage available)
  - Lifetime limits
  - "Restricted" annual limits
  - Prohibition on rescissions
  - Preexisting condition exclusion (prior to 2014, children under 19)
  - Waiting periods
  - Uniform summary of benefits

Non-Grandfathered Plan Provisions

- Grandfathered plans apparently are exempt from the following provisions:
  - Coverage of preventive services without cost sharing
  - Cost sharing limits
  - Nondiscrimination rules
  - Appeals and review process
  - Selection of doctors and referral requirements
  - Coverage of clinical trials
  - No discrimination against providers

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Impact of Health Reform

Change	Year of Enactment	Estimated Cost to Claims
Adult children up to age 26, regardless of marital or full-time student status, can be covered under our plans provided they are not eligible for coverage elsewhere.	2011	<0.1%
Elimination of lifetime plan benefit maximum. (Currently $XXXXXXX)	2011	XXX
Pre-existing exclusions are waived for children age 19 and under.	2011	None
Over-The-Counter (OTC) drugs are not reimbursable under the healthcare FSA without a prescription.	2011	None
W-2s voluntary discloser of value of health benefits.	2011	Administrative cost only.
CLASS Act – national voluntary Long Term Care (LTC) insurance – auto-enrollment with payroll deductions (unless employee opts-out).	2011	Administrative cost only.

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Impact of Health Reform

Change	Year of Enactment	Estimated Cost to Claims
Comparative Effectiveness Fee of $1 per participant in year 1, $2 per participant thereafter. Ends on 1/1/2020.	2013	<0.1%
Cap contributions to Healthcare Flexible Spending Account (HCFSA) at $2,500. (Currently $6,000)	2013	None
Increase Medicare tax by .9% for individuals earning over $200,000 for an individual	2013	None
Free Rider Penalty invoked if plan has less than a 60% actuarial value, is considered "unaffordable" or if employer does not offer health coverage at all. ➥ 60% actuarial value (i.e. plan must pay at least 60% of covered expenses) ➥ "Unaffordable" defined as employee premiums (medical and Rx) in excess of 9.5% of AGI.	2014	Lesser of $3,000 for each ee receiving subsidy or $2,000 for each full-time ee. Low risk of ees meeting eligibility Penalty is cost savings as our subsidy is greater than the current penalty.

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Impact of Health Reform

Change	Year of Enactment	Estimated Cost to Claims
Employer must offer free choice vouchers to qualified employees. Employees eligible if income <400% FPL and employer plan contributions are 8%-9.8% of AGI.	2014	Administrative cost only – voucher is equal to employer subsidy amount.
Pre-existing exclusions are waived for all.	2014	None
Auto-enrollment in health coverage (unless employee opts-out).	2014	Administrative cost only.
Excise Tax on High Cost Plans also known as “Cadillac Tax”	2018	Varies by plan.

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Employer Call to Action

- Employer's long-term strategy should consider all potential factors that impact costs

Potential Factor	How to Determine Cost Impact
Direct impact of health reform legislation	Actuarial cost modeling
Expected cost increases by insurers from significantly increased tax and regulatory burden	Cost impact to become clearer upon renewal
Cost - shifting from reduced Medicare payments over the next 10 years	Difficulty to quantify employer impact by location; partially offset by less cost shifting from coverage expansion

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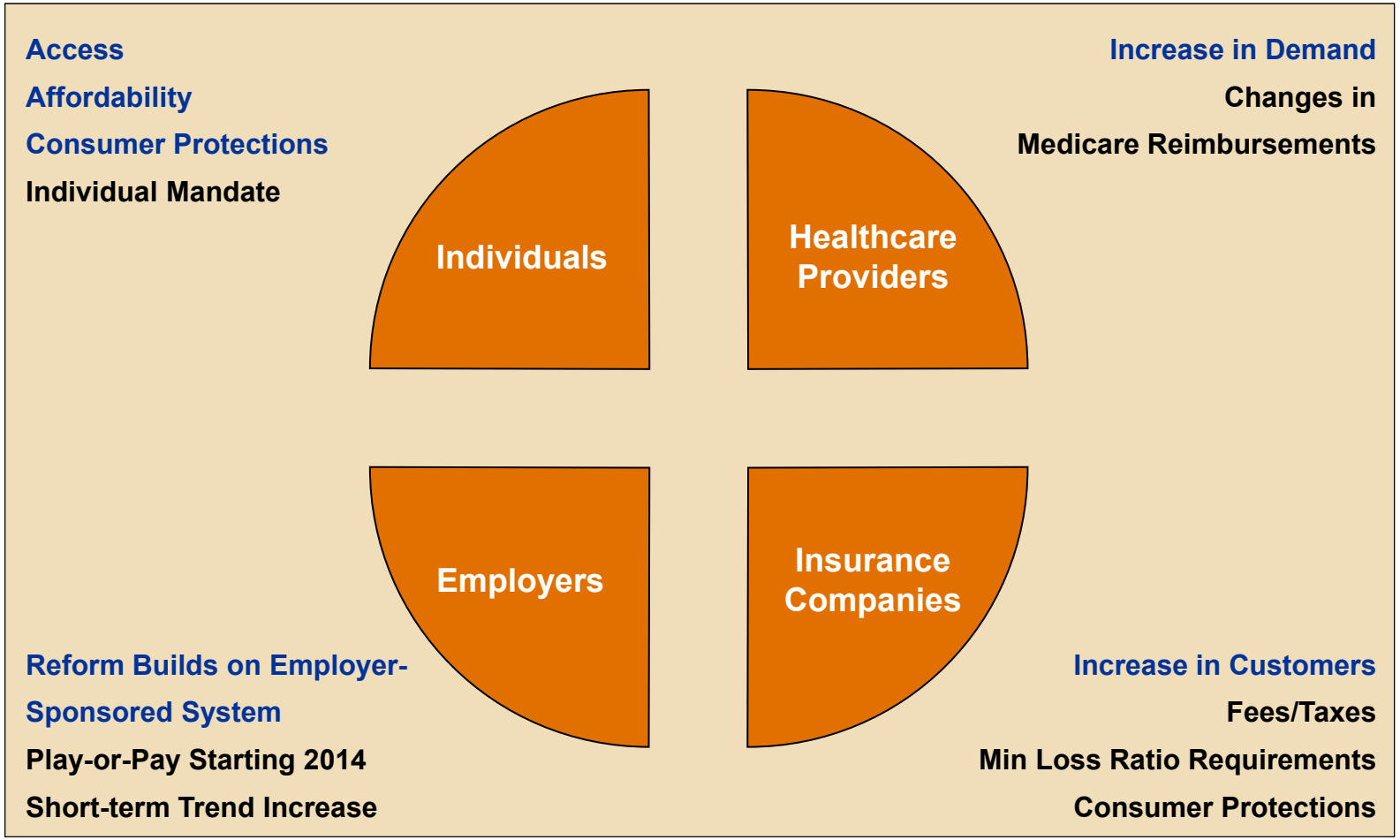
Healthcare Reform – Impact on Stakeholders



Reform focus is on Access, not on Cost Control

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Employer Call to Action

- National health reform law addresses coverage for the uninsured and insurance market reforms; little help for plan sponsors to lower long term medical trend.
- Health reform could add an additional 2% to 5% health care costs for plan sponsors. Engaging in cost modeling offered by Aon actuaries can determine 3-5 year cost impact.
- Congress is likely to raise the $2,000/EE penalty by 2014 for employers who do not offer group coverage. Penalty is also not tax deductible.
- Employers will get little help from Washington to lower EE health costs; resulting in the need for new health care strategy.

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Next Steps for Plan Sponsors

- Focus on near term compliance with insurance market reforms
- Model the long term impact of national health reform on costs of group coverage.
- Consider new strategies to lower long term medical trend.
- Decide on communication approach for employees on impact of new national health reform law
- Focus on participation in temporary re-insurance program for pre-65 retirees (if applicable)
- Monitor development of HHS regulations providing guidance on implementation of new health reform law

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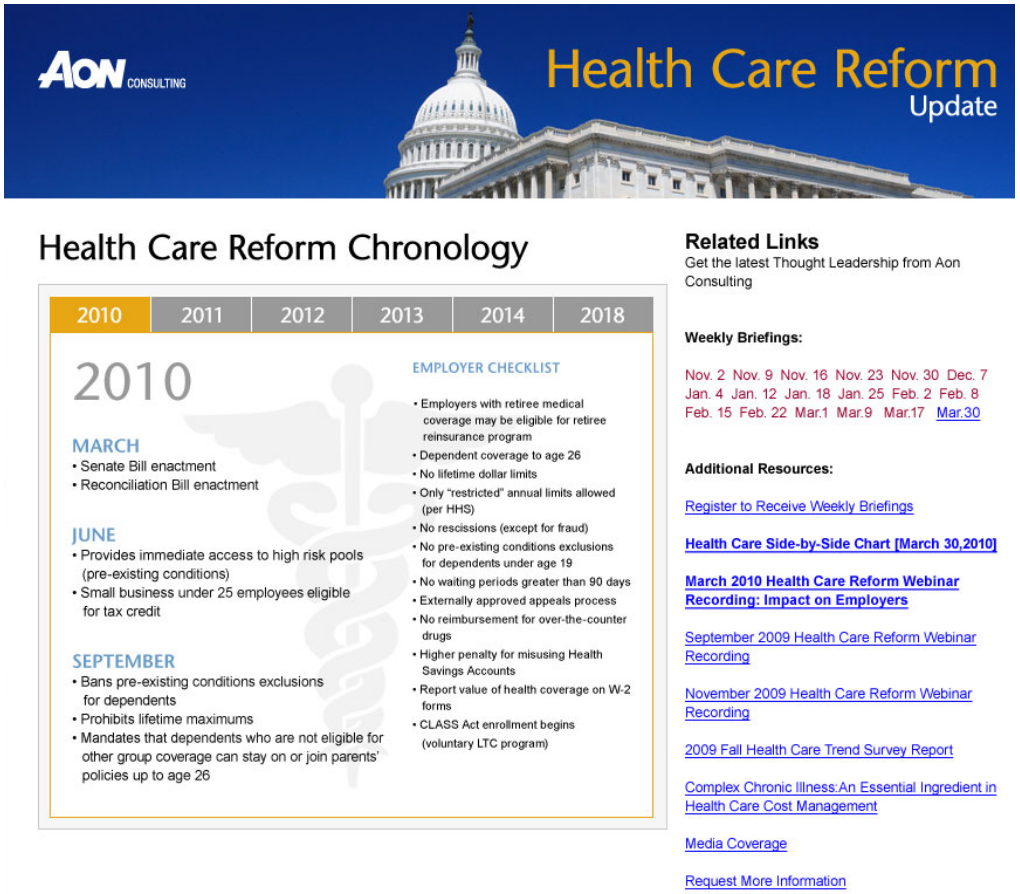
Where Can I Find Out More?

- Aon's Health Care Reform Microsite is a great resource: www.aon.com/healthcarereform
  - Weekly briefings
  - Webinar recordings
  - Regularly updated FAQs
  - Side-by-side comparison of the Senate and Reconciliation Bills
  - Survey findings



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Questions?
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