Preparing Employers for the Impact of Health Care Reform on Benefits

Deb Freeland, CPA, Partner
Nicole O. Fallon, Consultant Manager
April 12, 2012
Housekeeping

• Before we get started, I’d like to cover a couple housekeeping items:
• If you experience technical difficulties, please dial 800-263-6317.
• The Q&A session will be held at the end of the presentation. Your questions can be submitted via the Questions Function located on the upper right hand side of your screen. Questions will be answered in the order they came in.
• Following today’s presentation, we will email you a complimentary PowerPoint summarizing the topic.
About CliftonLarsonAllen LLP

• One of the nation’s top 10 CPA and consulting firms
• Service areas include audit, accounting, tax, consulting, and advisory
• 3,600+ professionals
• 90 offices nationwide
Agenda

• After participating in today’s webinar, you will understand:
• Reform overview – why and what happened
• Reform Summary Timeline
• Insurance/coverage provisions
• Employer Impacts
• Individual Mandate
• Health Insurance Exchanges
• Key future anticipated regulations
• Example of health insurance cost calculator
What Happened?

- In March 2010, Congress passed and the President signed health reform in:
  - The Patient Protection and Affordable Care Act
  - The Health Care and Education Affordability Reconciliation Act of 2010.
    - Increases access to health coverage
    - Aims to reduce costs via payment reductions and focus on wellness and prevention
    - Seeks to reward “value-based” care delivery

- Since passage, numerous additional laws have been passed amending portions of original laws, and rules/guidance issued.

Impact of the Act:
- Cost: = $940 billion/ 10 yrs
- Coverage = 32+ million by 2019
Is Health Reform Here to Stay?

- Congressional Repeal of Health Reform
  - House passed, Senate said, “No”
  - Death by a thousand cuts or repeals of pieces of reform
    ◦ Repeals as of April 2011: 1099s, Free choice vouchers

- The Courts - Litigation Challenges to Reform
  - Three district courts upheld, two courts say unconstitutional
    ◦ Appellate court action: Mixed messages
      • Two courts upheld, one court threw out both cases, one ruled Mandate unconstitutional but rest of law stands
  - Supreme Court: March 26-29, 2012 hearing, June 2012 ruling expected

- Administrative Agencies’ Action
  - Issuing rules and guidance on both employer and provider initiatives
Reform Summary Timeline

2010

- High risk insurance pools established.
- Small business tax credits for offering employee health insurance established
- Insurers can no longer deny coverage to children for pre-existing conditions.
- New group and individual plans required to cover preventive services at 100%.
- Dependents coverage expanded to age 26.
- Annual review of insurance premium increases effective.
- Grandfathered plan notification requirements.

2011

- Increased penalty on non-medical distributions from HSAs.
- Insurance administrative simplification begins.
- Medical loss ratios become effective for small group and individual plans.
- New simple cafeteria plans available to small businesses
- Workplace wellness program grants available for small employers
- Annual fees assessed on pharmaceutical companies.
- Application of non-discrimination regulations to fully-insured plans.
- OTCs no longer reimbursable under various health spending accounts

2012

- Employers to disclose health insurance benefits on W-2s.
- CLASS Act: National voluntary LTC insurance program established.
- Health plans to pay per participant fee to pay for Comparative Effectiveness Research.
- OTCs no longer reimbursable under various health spending accounts
Large employers disclose health insurance benefits on W-2s
Health insurers required to begin following administrative simplification regulations.
Limits placed on flexible spending accounts.
New 3.8% Medicare Tax for Unearned Income.

2013

Medicare Earned Income Tax Increases to 2.35% for higher income earners.
Employer tax deduction for Part D subsidies eliminated.
Insurance Exchange open enrollment begins

2014

State insurance exchanges operational.
Individual penalties imposed for failure to obtain health insurance coverage.
Insurance industry pays fees based on market share.
Insurers prohibited from restricting coverage and imposing benefit limits.

2015 - 2018

Employer “shared responsibility” penalties imposed.
Small employers to begin reporting health benefits on W2s.
Large employers to begin auto-enrolling FT employees into health insurance plan.
Insurers must guarantee issue and renew plans.

Large employers may be able to offer Exchange plan as employer-sponsored coverage (2017)
Excise tax imposed on “Cadillac” health plans (2018)
2012: W-2 Disclosure of Health Coverage Cost

• IRS delayed W-2 disclosure employer-provided health benefits costs for 2011 [IRC Sec. 6051(a)]
  - Includes medical insurance, dental and vision plans (unless separate plans), and self-insured arrangements
  - No reporting for employee salary-reduction FSAs or employer HSA or Archer MSA funding
  - Include family coverage amount, if applicable

• Reporting begins for most employers for 2012 expenses
2012: W-2 Disclosure of Health Coverage Cost

- W-2 reporting of health care costs applies to W-2s issued for 2012 benefits.

- Small Employers – fewer than 250 W-2s in 2011
  - Disclosure is optional for 2012 and until further guidance is issued, at least until January 2014.

Additional Resources


### Pending Implementation: Fully-insured plans can no longer discriminate

- **Expands the nondiscrimination rules to cover fully-insured group health plans** (IRS Code Section 105(h), which already applies to self-insured)
  - Also includes HRAs or stand-alone Medical Reimbursement Plans (MRPs)
  - Affects non-grandfathered plans for plan years beginning on or after 9/23/10

- **Penalties**
  - An employer who sponsors a discriminatory insured group health plan will be subject to an excise tax liability of **$100 per day per employee affected** with a maximum penalty of **$500,000**

- **As of 12/27/2010, compliance has been delayed until guidance/rules issued**

- **Additional comment period on proposed guidance closed 3/11/11**
  - See IRS Notice 2011-1
2012: Community Living Assistance Services and Supports (CLASS) Act

A national, voluntary, self-funded long term care insurance program that provides per diem cash benefit in the event an individual suffers a functional—physical or cognitive—limitation.

- HHS Secretary to release program details by October 1, 2012 –
  ◊ HHS Implementation Suspended (Oct. 2011)
  ◊ US House voted in Feb 2012 to Repeal; no action by Senate
  ◊ President said won’t sign a repeal

- Premium-supported program: law prohibits any taxpayer funding.

Employer Role
- Decide whether to participate in the program
- If participate, then:
  - Auto-enroll employees, unless they affirmatively opt out
  - Make payroll deductions for the program premiums for participating employees
- Does not require employer contribution.
- Program also available to self-employed and workers whose employers opt not to participate.
Health Plan Fees/Taxes

Comparative Effectiveness Research Plan Fee (2012)
- Effective for plan years ending after 9-30-2012, health insurance and self-insured plans must pay a per participant fee
  - If self-insured, employer pays fee.
- Fee
  - Year 1: $1/participant
  - Year 2: $2/participant
  - 2014: Inflation adjusted rate
  - 9/30/2019: Phased out

Cadillac Plan Tax (2018)
- 40% excise tax assessed on health insurer or plan administrator offering “high-cost” health coverage
  - “High cost” = annual premium > $10,200 single coverage or $27,500 family coverage

IRS Notice 2011-35: Proposed guidance, seeking comment
2013: Contribution Limits on Flexible Spending Accounts

• Places an annual limit on employee’s FSA contributions to $2500.
  – Current law imposes no limit.
  – The limit will be indexed for inflation beginning in 2013.

• This contribution limit does not impact Dependent Care FSAs. Contributions to Dependent Care FSAs will continue to be subject to a $5,000 per year limit.
2014: Auto-enrollment for Large Employers

- Employers with 200+ FT employees will be required to auto-enroll employees into their employer-sponsored health plan
  - Employees can opt out

- Originally, effective January 1, 2011, implementation is delayed until U.S. Dept. of Labor issues rules expected prior to 2014.
  - Definition of full-time employee
  - Clarity around which plan to enroll employee into if multiple plans offered
  - Specifics on opt-out notification
2014: Individual Mandate

- **Individual mandate to obtain health coverage:** Beginning in 2014, most individuals must obtain a minimum-level of health insurance coverage or pay a penalty.

- **Minimum essential coverage includes:**
  - Medicare, Medicaid, TRICARE
  - Insurance purchased through an Exchange, on the individual market
  - Employer-sponsored coverage that is affordable & provides minimum value
  - Grandfathered plans (group plan in effect on 3/23/2010)

- **Penalties for failure to obtain coverage:**
  - In 2014: greater of $95 or 1.0% of income
  - In 2015: greater of $325 or 2.0% of income
  - In 2016: greater of $695 or 2.5% of income
  - Penalty is capped at three times the per person amount for a family
  - Assessed penalty for dependents is half the individual rate

**Hardship exemption**
- Premium cost for lowest cost plan > 8% of Household Income
2014: Government assistance to help some individuals obtain coverage

- **Medicaid expansion:** Expands eligibility to individuals and families up to 133% of the federal poverty level (FPL)
  - If cost effective, states can opt to subsidize employer-sponsored premiums for this group

- **Premium and cost share assistance:**
  - Individuals and families with household income of 100 - 400% FPL may be eligible for sliding-scale assistance in the form of:
    - Tax credits to help pay premiums; and
    - Out-of-pocket reductions to help with cost sharing (e.g., co-payments and co-insurance)

133% FPL:
- Individual = $14,856
- Family of 4 = $30,656

400% FPL:
- Individual = $44,680
- Family of 4 = $92,200
Health Insurance Premium Tax Credit

**Eligibility**: Household Income between 100- 400% FPL and NOT eligible for minimum essential coverage

**Credit calculation** = Premium cost for benchmark plan (second lowest silver plan) – taxpayer’s applicable percentage

<table>
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<th>Household Income as a % of Federal Poverty Line (FPL)</th>
<th>Initial Percentage</th>
<th>Final percentage</th>
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<tbody>
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<td>Less than 133% FPL</td>
<td>2.0%</td>
<td>2.0%</td>
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<td>133 - 150% FPL</td>
<td>3.0%</td>
<td>4.0%</td>
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<tr>
<td>150 – 200% FPL</td>
<td>4.0%</td>
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<td>200- 250% FPL</td>
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<td>250 – 300% FPL</td>
<td>8.05%</td>
<td>9.5%</td>
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<tr>
<td>300 – 400% FPL</td>
<td>9.5%</td>
<td>9.5%</td>
</tr>
</tbody>
</table>
Example: Calculating Premium Assistance Tax Credit

Inputs

• Benchmark premium = $5,200
• Household Income (MAGI) = $27,225 (250% FPL/individual)
• Applicable % = 8.05%

Premium Assistance Tax Credit Calculation = $5,200 - $2,192 = $3,008

• If actual Tax Credit > Advanced Payment, taxpayer receives income tax refund.
• If Advanced Payment > Credit, then must re-pay
  – Repayment is capped for those earning < 400%FPL
2014: State Health Insurance Exchanges

What is an exchange?
A marketplace for individuals and small businesses to shop for insurance.
- Offer a choice of health plans
- Standardize health plan options
- Allow consumers to compare plans based upon price
- Intended to provide a more competitive market
- Provides consumers with a neutral party to assist with plan enrollment, information and eligibility determination for any subsidies

Who can participate?
- In 2014, small employers can offer an Exchange plan as their employer health plan
- Individuals: Includes self-employed or unemployed individuals (2014)
- In 2017, states can allow large employers to participate
  - Each state must establish a health insurance exchange
  - HHS Secretary to establish the rules around exchanges

https://exchange.wisconsin.gov/
2014: Exchange Plans

Types of exchange plans to be offered by insurers

- **Bronze** = 60% actuarial value
- **Silver** = 70% actuarial value
- **Gold** = 80% actuarial value
- **Platinum** = 90% actuarial value
- **Catastrophic plan**
  - Only available to individuals < 30 years old, or those exempted from the individual mandate due to unaffordability or hardship.
  - Plan must cover:
    - “minimum essential benefits”
    - A minimum of three primary care visits per year
- All exchange “metal” plans must cover essential health benefits, limit cost-sharing and have a specified actuarial value
2014: Potential Large Employer Penalties

Law does NOT require employers to offer health insurance

- Beginning in 2014, **employers with 50+ FTEs** must pay a “shared responsibility” penalty if any FT employee receives Exchange subsidies
  
  - Different penalties whether or not employer offers affordable, “**minimum essential coverage**” to employees
  
  - **Minimum essential coverage** = Plan with 60% actuarial value

  - **Affordable** = Employee premium cost < 9.5% of household income

  
  
  **FTE = FT employees + FT equivalents**

  - **FT employee** = works avg. 30 or more hours per week
  
  - **FT equivalents** = Hours worked in a month by all PT employees divided by 120
Employer “shared responsibility” penalty

Penalty only assessed if a FT employee receives Exchange subsidies.

- **No or Inadequate Insurance Penalty**
  - $2000 x each full-time worker (after first 30 workers)

- **Unaffordable Employer Coverage Penalty**
  - At least, $3000 x # of full-time employees who receive exchange subsidies
  - **Maximum penalty** = $2000 x each full-time employee (except for first 30 full-time workers) penalty
  - No penalty for Medicaid eligible employees

*Employees are not eligible for Exchange subsidies if their employer coverage is deemed “affordable”*

“**Affordable**” means the employee premium contribution under the employer plan is **less than** 9.5% of their household income
Other Employer Requirements

- Government reporting obligations (2014)
  - Names of FT employees on the health plan
  - Employer contribution levels to employee coverage
  - Plan waiting period length
  - Whether employer-sponsored plan meets “minimum essential coverage” requirements
Key Provisions of Aug. 12 Proposed Rules

- **Affordability for Employee:** If employee’s premium cost for self-only coverage is less than 9.5% of their W-2 wages for the employer, the health insurance is considered affordable even if they have a family and take family coverage.
  - It appears that if coverage is affordable for employee but not their family, the employer will not pay a penalty.
  - Employer’s not subject to penalty if employee receives tax credit but later employer-sponsored insurance is determined to be affordable.
  - **Affordability for related individuals:** For premium tax credits eligibility = cost of self-only coverage related to household income; for the individual mandate penalty = family coverage premiums in proportion to household income.

- **Must file tax return:** All individuals receiving an advanced premium assistance tax credit must file an income tax return, regardless if they are otherwise required to file.
Key Future Anticipated Regulations

- Anticipated to provide employer safe harbor from penalty assessment if they meet certain requirements.
- Employer large group plans will not be required to cover all of the essential benefits or 10 categories of benefits.
- May provide some transition relief with respect to meeting the “minimum value” requirement for plans.
CLIFTONLARSONALLEN HEALTH INSURANCE & PENALTY (HIP) CALCULATOR
## Employer Health Insurance & Penalty (HIP) Costs

### Impact of Employer Health Insurance Reforms

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<thead>
<tr>
<th>Category</th>
<th>Number</th>
<th>Details</th>
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<tr>
<td>Full-Time Employees</td>
<td>1,922</td>
<td>(1,319 Insured / 603 Waived)</td>
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<tr>
<td>Total Staffed</td>
<td>2,725</td>
<td>(106 PT Insured / 697 PT No ESI)</td>
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<tr>
<td>2014 PPACA FTEs</td>
<td>2,361</td>
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</table>

### Post Acute Organization (2014 Offer)

#### HEALTH REFORM SUBSIDIES IMPACT ON HEALTH COSTS

<table>
<thead>
<tr>
<th>Category</th>
<th>Today's Cost</th>
<th>2014 Offer Coverage</th>
<th>2014 Drop/Don't Offer</th>
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<tr>
<td>Baseline Premium Cost</td>
<td>$5,826</td>
<td>$5,826</td>
<td>$5,826</td>
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<tr>
<td>2011-2014 Premium Increase (9.0% / Yr)</td>
<td>-</td>
<td>2,398</td>
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<tr>
<td>Adjusted Premium Cost</td>
<td>$5,826</td>
<td>$8,224</td>
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<tr>
<td>Post Tax Adjusted Premium Costs</td>
<td>$3,787</td>
<td>$5,346</td>
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<tr>
<td>PLUS: Additional Reform Impact</td>
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<tr>
<td>Previously Waived FT Employees</td>
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<tr>
<td>Increased Employer Premiums</td>
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<td></td>
<td>-</td>
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<tr>
<td>Penalty: Subsidy Eligibles &amp; ESI</td>
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<td></td>
<td>177</td>
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<tr>
<td>Health Reform Increased Cost</td>
<td>-</td>
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<td>3,004</td>
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<tr>
<td>LESS: Previous Premium Liabilities</td>
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<tr>
<td>Medicaid Employee ESI</td>
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<td>(577)</td>
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<tr>
<td>Subsidy Eligible FT Employees ESI</td>
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<td>(384)</td>
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<td>Health Reform Decreased Cost</td>
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<td>(961)</td>
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<td>No Minimal Essential Coverage</td>
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<tr>
<td>Less: 2014 Inflation Adjusted HC Cost</td>
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<td>(8,224)</td>
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<tr>
<td>Plus: Subsidy Eligible Penalty</td>
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<td>3,784</td>
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<tr>
<td>Health Reform No ESI Cost</td>
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<td>(4,440)</td>
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<td>Adjusted HC Costs</td>
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<td>HC Cost Change to 2014 Projected</td>
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<td>($4,440)</td>
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<td>% HC Cost Change to 2014 Projected</td>
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<td>Tax Adjusted HC Costs</td>
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<td>$6,735</td>
<td>3,784</td>
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### HEALTH REFORM KEY DRIVERS

#### Today's Single Coverage Employer Premium Cost

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<tr>
<th>Category</th>
<th>Cost</th>
<th>Adjusted Cost</th>
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<td>Average Single Employer Cost</td>
<td>$4,030</td>
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<td>Employer Contribution %</td>
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#### Medicaid Eligible Employees

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<tr>
<th>Category</th>
<th>Number</th>
<th>Estimated MA Cost Savings ($000s)</th>
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<td>Total MA Enrollees</td>
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<td>Estimated MA Cost Savings</td>
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#### Employer Unaffordable Coverage Penalty

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<tr>
<td>Subsidy Eligible Full-Time Employees</td>
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<td>$177</td>
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<td>Estimated Subsidy Penalty</td>
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<td>($000s)</td>
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<tr>
<td>% Total Full-Time Employees</td>
<td>3.1%</td>
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#### Employer No ESI Insurance Penalty

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<tr>
<th>Category</th>
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<th>Adjusted Penalty</th>
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<tr>
<td>Total Full-Time Employees</td>
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<td>$3,784</td>
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<td>Less: 30 Employees</td>
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<td>Adjusted Full-Time Employees</td>
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<td>($000s)</td>
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<tr>
<td>No Insurance Penalty ($2,000)</td>
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<tr>
<td>Estimated Subsidy Penalty</td>
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<table>
<thead>
<tr>
<th>Category</th>
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<td>2014 Pre Reform Projected HC Costs</td>
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<tr>
<td>Estimated Net Savings</td>
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<td>($000s)</td>
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Employee Exchange Subsidy Eligibility Factors

Exchange Subsidy Eligibility =

Affordability +
133-400% of FPL

In 2014, employer pays penalty when a FT employee is eligible for Exchange Subsidy.
We estimate that 3% of your full-time employees will be eligible for Exchange subsidies, while 86% will continue to be covered by your current ESI.
Per Employee Cost Perspective
Health Insurance and Penalty (HIP) Calculator

www.larsonallen.com/HIP
Resources

- For updated guidance, proposed rules and other information about PPACA implementation issues:
  http://www.irs.gov/newsroom/article/0,,id=220809,00.html

- Proposed rule on the Health Insurance Premium Tax Credit:
# Questions?

<table>
<thead>
<tr>
<th>Deb Freeland, CPA</th>
<th>Follow our blog for current discussions on health care.</th>
</tr>
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<th>Nicole O. Fallon</th>
<th>For more information on health reform, go to our Health Care Reform Center: <a href="http://www.larsonallen.com/healthreform">www.larsonallen.com/healthreform</a></th>
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<tr>
<td><a href="mailto:Nicole.Fallon@cliftonlarsonallen.com">Nicole.Fallon@cliftonlarsonallen.com</a></td>
<td>612-376-4843</td>
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