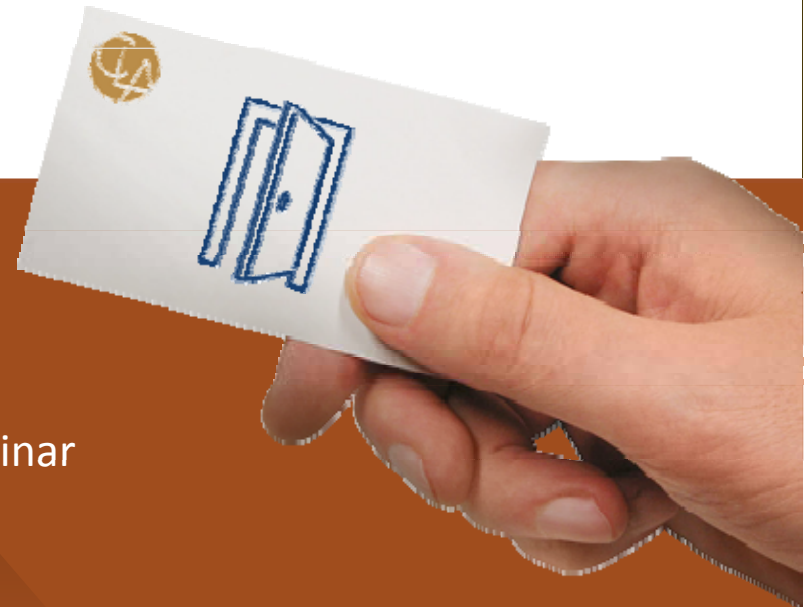


The Affordable Care Act:

Critical Implementation Period Starting Now



cliftonlarsonallen.com



2013 Nonprofit Seminar
Sue Bunevich
June 26, 27, and 28

Kubler-Ross Five Stages of Grief and the health care reform process

1. Denial
2. Anger
3. Bargaining
4. Depression
5. Acceptance!

The ACA

- Is the law of the land today
- Applies to all businesses in the US, including governments
- Requires almost all individuals to obtain health insurance coverage or pay a penalty
- Establishes health insurance exchanges (state or federal)
- Employers with 50+ FTE employees may have to pay a penalty if they don't offer full-time employees affordable, minimum level health insurance after 1/1/2014
- **Implementation details continue to be outlined through the issuance of new regulations, guidance, and FAQ documents from IRS, HHS, DOL**

Concepts to Know the Framework

1. Healthcare Industry Taxes
2. Exchanges
3. Modified Rating
4. Premium Credits and Subsidies
5. Penalties / Affordable Coverage
6. Limits on Cost Sharing
7. Determining Full Time Status
8. Strategic Modeling

HEALTHCARE INDUSTRY TAXES

PHARMACEUTICAL FEE

- Annual Fee on branded prescription drug manufacturers and importers.
- Effective January 1, 2011
- Manufacturers or importers with gross receipts from branded prescriptions drug sales

Annual Tax/Fee Amount

- Amount is determined by the branded prescription drug sales during the calendar year and percentage of gross receipts

HEALTHCARE INDUSTRY TAXES

MEDICAL DEVICE TAX

- Annual excise tax on medical device manufacturers and importers
- Effective January 1, 2013
- Tax on manufacturers or importers with gross receipts from medical device sales

Annual Tax/Fee Amount

- Amount of tax is 2.3% of the selling price

HEALTHCARE INDUSTRY TAXES

INDOOR TANNING TAX

- A tax on any service that uses an electronic product with 1 or more ultraviolet lamps for skin tanning
- Effective July 1, 2010
- Individuals that use the services

Annual Tax/Fee Amount

- Tax equal to 10% of the amount paid for a service

HEALTHCARE INDUSTRY TAXES

COMPARATIVE EFFECTIVENESS FEE

- This funds research on the effectiveness, risks, and benefits of medical treatments through Patient-Centered Outcomes Research Institute
- Effective Policy/Plan year beginning 10/1/2012
- Insurers and Self-insured Plans

Annual Tax/Fee Amount

- October 2012 through September 2013 - \$1 per participant per year
- October 2013 through September 2014 - \$2 per participant per year
- October 2014 – the rate increase each year by the medical inflation rate.

HEALTHCARE INDUSTRY TAXES

INSURER FEE

- Annual fee to fund premium subsidies and Medicaid expansion
- Effective 1/1/2014
- Issuers of fully insured plans including dental and vision plans

Annual Tax/Fee Amount

- 2014 - \$8 billion and increase to \$14.3 billion in 2018
- After 2018 the fee increases based upon premium growth
- Assessed based upon insurer's market share of net premiums written

HEALTHCARE INDUSTRY TAXES

REINSURANCE FEE

- Fee will be used to make reinsurance payments to health insurance issuers that cover high-cost individuals in non-grandfathered individual plans
- Effective 1/1/2014
- Full or Self Insured Plans

Annual Tax/Fee Amount

- 2014 - \$5.25 per plan participant per month.
- Exception: Employers not subject to this fee for employees covered by Medicare, when Medicare is primary coverage

HEALTHCARE INDUSTRY TAXES

HIGH-COST Insurance Tax

- Annual excise tax on high-cost health plans
- Tax year beginning 1/1/2018
- Issuers of fully insured plans
- Sponsors/Administrators of self-insured plans
- “Cadillac Tax”

Annual Tax/Fee Amount

- Tax of 40% on health plan costs that exceed plan thresholds of \$10,200 for single coverage or \$27,500 for family coverage

Exchanges

- Individuals and small businesses (*under 50 employees through 2015, then under 100*)
- Like Orbitz for health insurance
- Metal Levels of Coverage (*Bronze-Platinum*)
- Essential Health *Benefits* (*Emergency, Hospital, Rx, Mental Health, Pediatric. . .*)
- Federally and state sponsored

Exchanges

- Annual calendar year enrollment periods
- No Health Questions or Rating
- Guaranteed Issue; No Pre-existing Condition Limitations
- Competition and Size vs. Adverse Selection

Modified Rating

- Individual / Exchange and Small Group Markets (up to 50)
 - Not Health!
 - Location
 - Family Status
 - Tobacco use (50% load!)
 - **Age (3:1 rate spread)**

	24 year old	59 year old
Current premium	\$100	\$600
PPACA	\$100	\$300
PPACA	\$200	\$600

Subsidies

➤ Exchange Tax Credit Guidelines

Federal Poverty Level	<u>Household</u> Income Family of Four*	Max Premiums as % of AGHI	Subsidized Plan Actuarial Value
< 100%	\$23,500	Medicaid	Medicaid
133%	\$29,327	Medicaid	Medicaid
150%	\$33,075	4.0%	94%
200%	\$44,100	6.3%	87%
250%	\$55,125	8.0%	73%
300%	\$66,150	9.5%	70%
350%	\$77,175	9.5%	70%
>400%	\$88,200	Unlimited	Unlimited

Source: Lykes Insurance

Exchange vs. Group Coverage

Employee Profile	
Age	39
Salary	\$55,000
Current Coverage Level	Family
Projected Coverage Level	Family
Est. AGHI	\$55,000
% Est. AGHI to FPL	250%

Employee View	Contribution/ Premium	Net Cost	Est. AV
Group (as of 2014)	\$800	\$616	70%
Exchange	\$1,200	\$366 (8% of HH)	73%
Comparison		+\$250	+3%

Source: Lykes Insurance

Exchange vs. Group Coverage

Employee Profile	
Age	39
Salary	\$33,000
Current Coverage Level	Family
Projected Coverage Level	Family
Est. AGHI	\$33,000
% Est. AGHI to FPL	150%

Employee View	Contribution/ Premium	Net Cost	Est. AV
Group (as of 2014)	\$800	\$616	70%
Exchange	\$1,200	\$110 (4% of HH)	94%
Comparison		+\$506	+24%

Source: Lykes Insurance

Exchange vs. Group Coverage

Employee Profile	
Age	54
Salary	\$70,000
Current Coverage Level	Employee and Spouse
Projected Coverage Level	Employee and Spouse
Est. AGHI	\$95,400
% Est. AGHI to FPL	462%

Employee View	Contribution/ Premium	Net Cost	Est. AV
Group (as of 2014)	\$500	\$375	80%
Exchange	\$1,200	\$1,600	70%
Comparison		\$1,225	10%

Penalties for Individuals

- Individual mandate (*actually a tax*) not a significant motivator
 - 2014 → \$95 or 1 percent of income – whichever is greater
 - 2015 → \$325 or 2 percent of income
 - After 2016 → the tax will be based on the cost-of-living adjustment every year

- Only applies to tax filer.

Penalties for Employers

Begin plan years on or after 1/1/14

- Small Employers (under 50 employees)
 - No penalties or requirements
 - Modified community rating only
 - Employees are eligible for exchanges
 - Employees can get subsidies if employer coverage is “Unaffordable”

Penalties for Employers

Begin plan years on or after 1/1/14

➤ All Employers

- Discrimination Penalties - \$100 / day per employee (delayed pending regulations)

➤ Large Employers

- “No Coverage” Penalties
- “Unaffordable Coverage” Penalties

What is a Large Employer?

- A large employer employed an average of at least 50 full time employees during the preceding calendar year (for 2014, any consecutive six month period in 2013). The number of full time employees equals:
 - Full time employees working on average 30 hours or more per week plus
 - The total number of part-time hours worked in a month divided by 120
 - 30 full timers +
 - 30 part timers at 20/week(86/month)
 - $2580 \text{ hours} / 120 = 21 \text{ full time equivalents}$
 - = 51 full time employees (or equivalents)

What is a “Full Time” Employee?

- For purposes of assessing penalties;
 - Full time employees (reasonably expected to average 30 hours after 90 days). Excludes sole proprietors, partners, 2% owners, foreign employees, “leased” employees.

What is a “Full Time” Employee?

- For purposes of assessing penalties;
 - Ongoing employees expected to average 30 hours, or as determined by a ...
 - "Standard Measuring Period" (3-12 months) and analyzed during an
 - "Administrative period" (up to 90 days) then enforced during a
 - "Stability Period" which must be;
 - For full timer - minimum of six months and no shorter than the standard measuring period
 - For part timer - no longer than the standard measuring period
 - 2013 only, a six month measurement period can precede a 12 month stability period if started by 7/1 /1 3

Safe harbors: Full-time employee

- IRS Notice 2012-58 and Dec. 2012 IRS/HHS proposed regulations explain a method employers may use to determine full-time status for ongoing employees, new employees expected to work full-time, and variable hour and seasonal workers.



- Measurement period: 3 – 12 months (employer determined)
- Administrative period(Optional): Up to 90 days for employee eligibility for coverage determinations, notification and enrollment of employees
- Stability period: The greater of 6 months or the duration of the standard measurement period

What are Large Employer Penalties? “No Coverage”

- If employer fails to offer minimum essential health benefits to 95% of employees (and their children), and at least one “full time” employee could obtain subsidized coverage through an exchange the penalty is \$2,000 (\$166.66/month) for all but 30 full time employees
- Penalties begin on plan anniversaries on or after 1/1/14

What are Large Employer Penalties? “Unaffordable Coverage”

- Employer does not offer minimum essential coverage, but for each full time employee who obtains subsidized coverage through an exchange the penalty is \$3,000 (\$250/month)
- Employee can get subsidized coverage if employer coverage is “unaffordable”:
 - Coverage has less than 60% actuarial value *or*
 - Costs employee more than 9.5% of house-hold income (Dependents contributions not tested)
- Total penalties can’t exceed the “no coverage” penalty
- Exchanges adjudicate and IRS bills

Unaffordable Coverage Deductions - Cost

- Single employee with \$20,000 W2 income
- Monthly deduction of \$158 is affordable (less than 9.5% of income)
- Household income could be much higher making deduction even more affordable

W2 Income	\$20K	\$30K	\$40K	\$50K	US Average
"Affordable" Monthly Deduction	\$158	\$237	\$316	\$395	\$110

Source: Lykes Insurance

Unaffordable Coverage Actuarial Values

Essential health expenses	\$5,000	\$5,000
Deductible	\$2,000	\$1,000
Benefit	\$3,000	\$4,000
% Paid	60%	80%

Source: Lykes Insurance

Limits on Cost Sharing

- Small Group (Non-grandfathered)
 - Maximum deductibles \$2,000 / 4,000 (single/family)
 - Maximum out of pocket \$6,250 / 12,500 (2013 HAS limits)
 - Essential Health Benefits Required
- Large Groups (Non-grandfathered)
 - Maximum out of pocket \$6,250 / 12,500 (2013 HAS limits)

Let's get to Strategy; What Changes?

- Current effect of lower income employees on employer contribution strategy
- Rich benefits and low deductions to try to appease them

Employees with families	Loser	Winner
Single employees	Marginal	Big Winner
	Low Income	High Income

Let's get to Strategy; What Changes?

- What if lower income employees go to an exchange?
- How would we think differently about plan design and contributions?

Employees with families	Big Winner	Marginal	Winner
Single employees	Winner	Marginal	Big Winner
	Less than 200% FPL	\$45k - \$75k	High Income

To Determine Strategy; What Would You Want to Know?

- Who could go to an ex-change? Who should? Who could get Medicaid?
- Should they be allowed by making coverage "unaffordable" for them?
- Should they be encouraged? How?
- What would be the cost of penalties?
- What would be an affordable plan for those who don't? Could you take money out of your plan?

Strategic Modeling

- Leverage subsidies
 - Most effective with high percentage of covered employees with lower income
 - Regardless of size
- Avoid penalties
 - Most important with low percentage of covered employees with lower income (Doesn't address participation or recruiting issue)
- Manage headcount and/or 30 hours thresholds become important
 - Depends on business model
 - 50 employees and/or 30 hours thresholds become important
 - Smart measurement periods!
 - Job sharing could be common
 - Partial leasing or staffing could play role

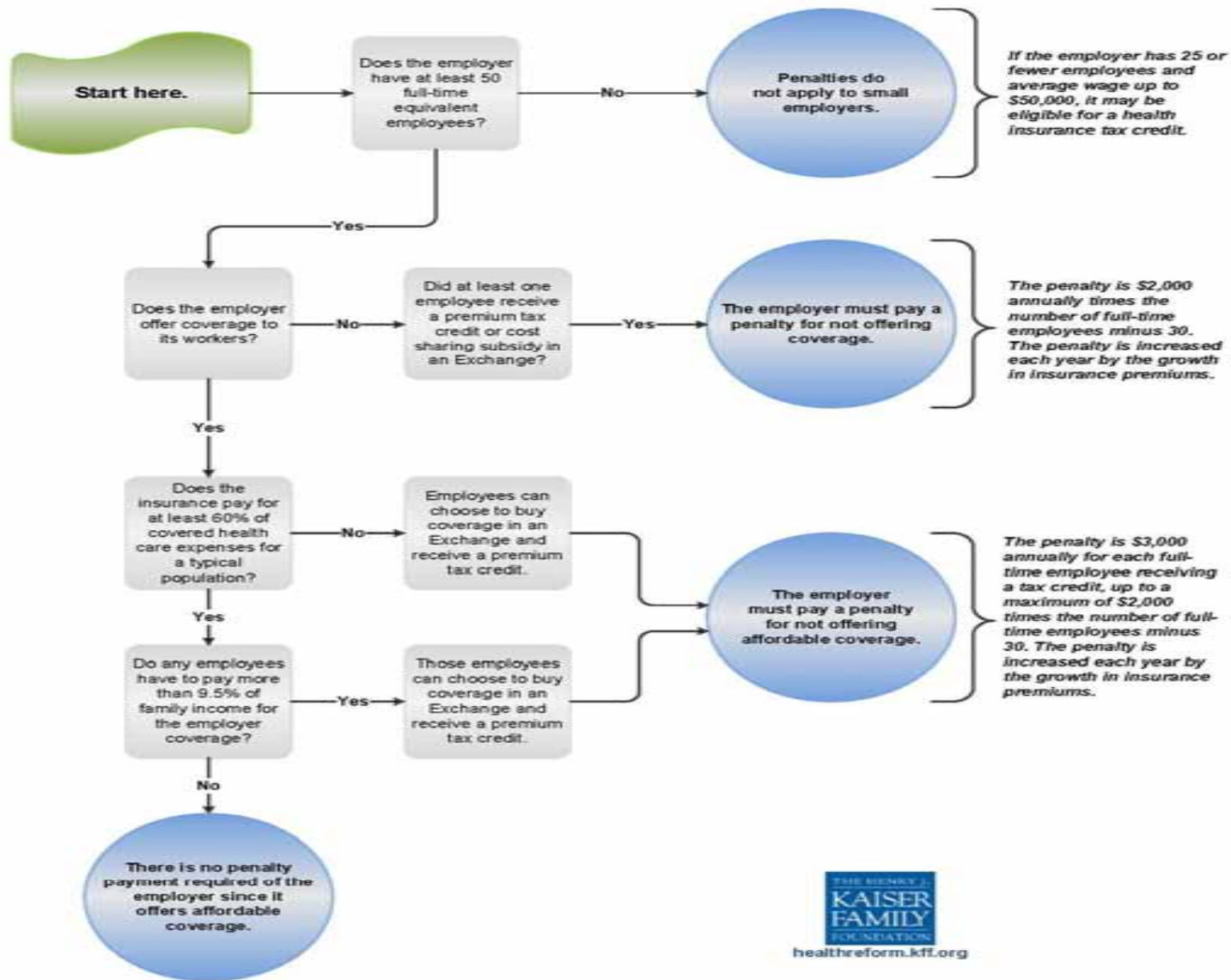
Next Steps

- Get to “Acceptance”
- Begin your plan
- Gather data
- Determine Full Time Employees and Large Employer Status
 - Establish measurement periods
 - Document!
- Start modeling
 - To determine the right strategies for you
 - Fine tune your plan
 - For budgeting purposes

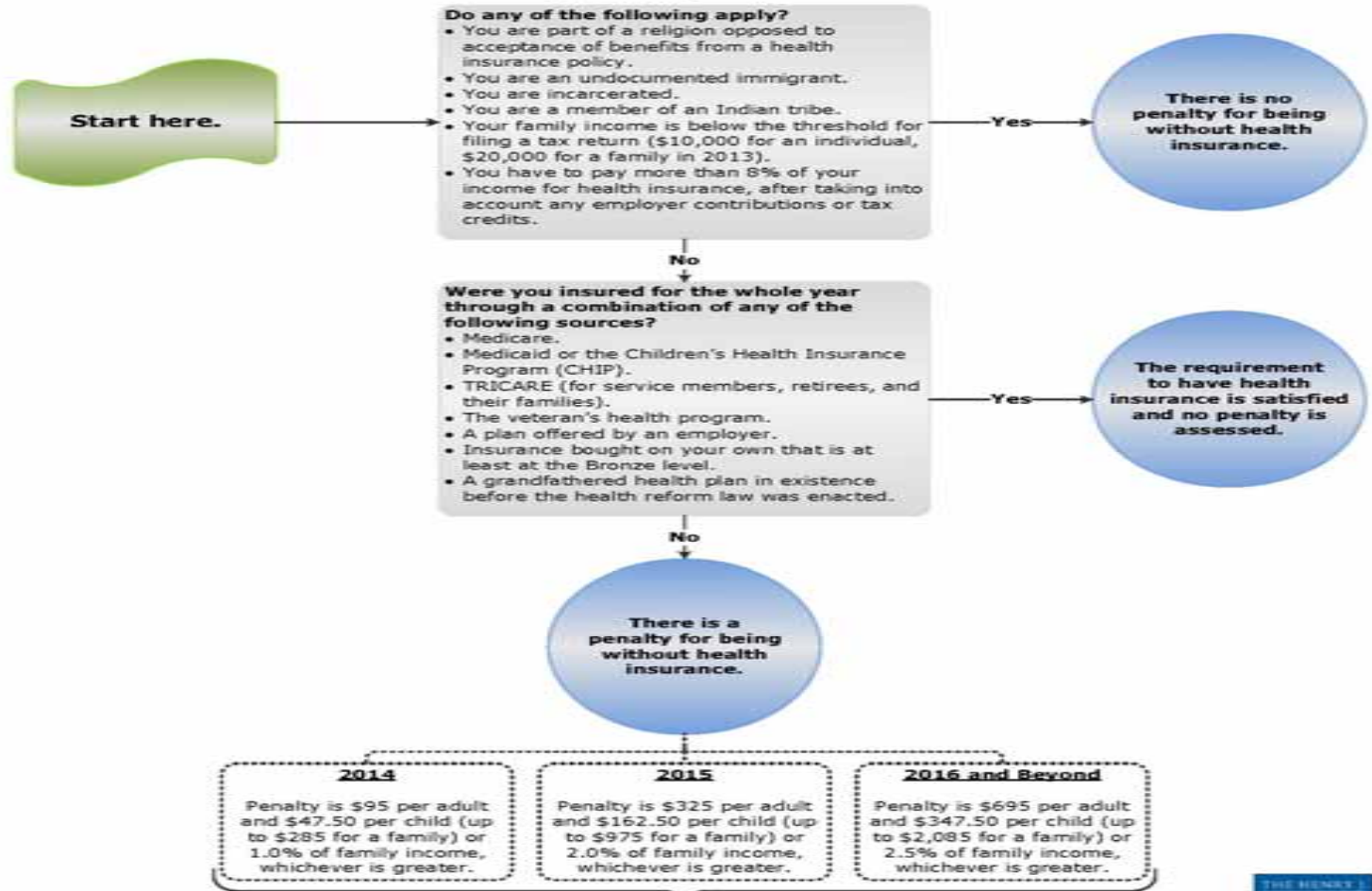
Next Steps

- Consider employee communications
 - Required exchange notification delayed
 - Who would you reach out to? How? When?
 - How can you help?
 - Who else can help?
- 189, 188, 187 days!

Penalties for Employers Not Offering Affordable Coverage Under the Affordable Care Act Beginning in 2014



The Requirement to Buy Coverage Under the Affordable Care Act Beginning in 2014



Income is defined as total income in excess of the filing threshold (\$10,000 for an individual and \$20,000 for a family in 2013). The penalty is pro-rated by the number of months without coverage, though there is no penalty for a single gap in coverage of less than 3 months in a year. The penalty cannot be greater than the national average premium for Bronze coverage in an Exchange. After 2016 penalty amounts are increased annually by the cost of living.



Key Facts:

- Premiums for health insurance bought through Exchanges would vary by age. The Congressional Budget Office estimates that the national average annual premium in an Exchange in 2016 would be \$4,500-\$5,000 for an individual and \$12,000-\$12,500 for a family for Bronze coverage (the lowest of the four tiers of coverage that will be available).
- In 2012 employees paid \$951 on average towards the cost of individual coverage in an employer plan and \$4,316 for a family of four.
- A Kaiser Family Foundation subsidy calculator illustrating premiums and tax credits for people in different circumstances is available at <http://healthreform.kff.org/subsidycalculator.aspx>.



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